



May 8, 2015

**COMPANY REPORT: KINROSS GOLD –
BUY WITH A \$2.82 PRICE TARGET**Byron Kam, CFA Mimi Ma
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SUMMARY

- We view Kinross as undervalued and rate the stock as a buy for investors who have a long term horizon and high risk tolerance and view intrinsic value as \$2.82 per share which represents 14.7% upside
- Investor sentiment has swung too bearish and as a result the risk-reward profile for the stock looks attractive based on a sensitivity analysis
- Kinross has been able to reduce their CapEx (150M in Q1 2015 vs. 617M Q4 2011) and also made strides with their cost structure of their business
- We model gold production to average 0.6% CAGR through 2020 driven by increases in Tasiast offsetting the decrease from Round Mountain

COMPANY SNAPSHOT

| | | | |
|----------------|----------|---------------------|---------|
| Last Px | 2.46 | GM | 17.90% |
| Mkt Cap | 2,819.7M | Curr Ratio | 4.3 |
| Curr EV | 3,886.3M | Quick Ratio | 1.9 |
| Dvd Ind Yld | N.A. | Debt/Assets | 23.00% |
| P/E | N.A. | Debt/Com Eq | 42.50% |
| P/B | 0.54 | 52 Wk H | 4.47 |
| P/S | 0.8 | 52 Wk L | 2.00 |
| P/CF | 3.2 | SI/% of Float | 0.93% |
| EV/T12M EBITDA | N.A. | Moody's | Ba1 |
| ROA | -12.70% | S&P | BBB- |
| ROE | -22.10% | 12M Total Ret (TRA) | -38.35% |

COMPANY DESCRIPTION

Kinross Gold Corp is a Canada-based company focused on producing gold and silver. Shares are traded on the New York Stock Exchange (NYSE: KGC) and the Toronto Stock Exchange (TSE: K). Gold production makes up approximately 97% of revenues while silver production comprises the remaining 3%. With properties in the United States, Brazil, Russia, Chile, Ghana and Mauritania, Kinross maintains a global presence. Geopolitical risk may play a role in Kinross' future as Russian production comprises 29% of 2015 estimated total gold output. However, the company has not been directly affected by the Ukrainian conflict but does have costs denominated in Russian rubles. The company does not hedge metal outputs but does hedge a variety of inputs including oil, gasoil and foreign currency. Currently the company has \$195 million of Brazilian real forwards, \$53 million of Chilean peso forwards, 48 million of Russian ruble forwards, \$58 million of Canadian dollar forwards, 285,400 barrels of oil swaps, and 8,184 tons of gasoil swaps. As of year-end the company has proven and probable gold reserves of approximately 34.4 million ounces and 44.0 million ounces of silver.



In 2014 the company produced 2.71 million ounces at all-in sustaining cost of \$973 per ounce which represents 2.7% of the global supply from mine production according to GFMS. Kinross has occasionally acquired and divested of properties. They sold their 50% stake in the Crixas mine in Brazil in 2012 for \$220 million to AngloGold Ashanti. The company also acquired the Tasiast and Chirano mines as a result of the acquisition of Red Back Mining in 2010 for \$7.1 billion.

■ MINES



Figure 1: Global properties (Source: Kinross Gold)

| Name | Position | Age | Start | Tenure | % TRA | % TRA (Peers) |
|-----------------------|--------------------------|-----|--------|--------|--------|---------------|
| J Paul Rollinson | Chief Executive Officer | 53 | Aug-12 | 2.6 | -36.23 | -21.36 |
| Tony S Giardini | Chief Financial Officer | 54 | Dec-12 | 2.3 | -46.11 | -28.64 |
| Warwick Morley-Jepson | Chief Operating Officer | | Oct-14 | 0.4 | -47.58 | -13.14 |
| Geoffrey Peters Gold | Executive Vice-President | | Aug-12 | 2.6 | -36.82 | -22.56 |
| James Crossland | Executive Vice-President | | Aug-12 | 2.6 | -36.82 | -22.56 |

Figure 2: Executives and track record (Source: Bloomberg)

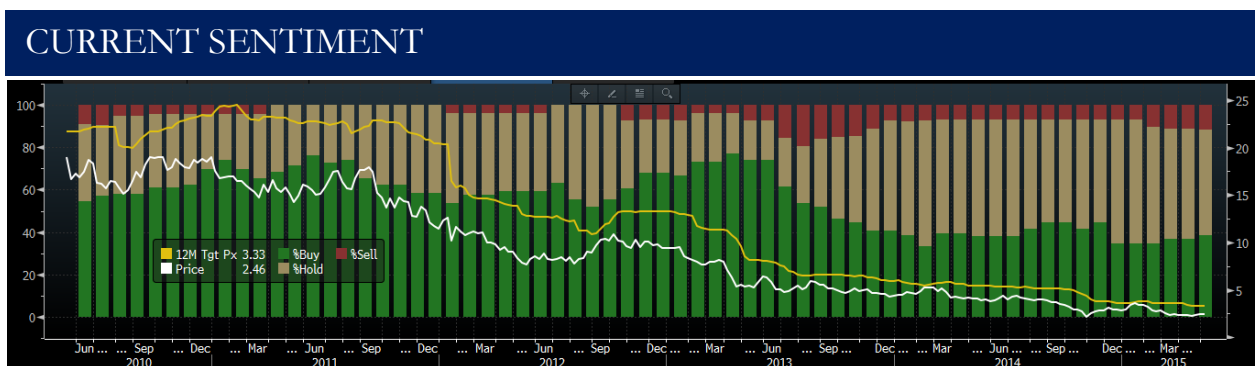


Figure 3: Analyst opinion over the past five years (Source: Bloomberg)



Analysts are slightly negative on the stock with 38.5% holding a buy rating, 50% holding a hold rating and 11.5% holding a sell rating with a consensus 12 month price target of 3.33 which represents 35% upside based on a current price of 2.46 per share. In the past, analyst opinion has been inversely correlated with subsequent returns, which means overly bearish sentiment for Kinross stock may be a net positive.

| Properties | | | | | | | | | | | | | | | |
|-----------------------|------------|------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Property | Country | Own? | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| Fort Knox | USA | 100% | 329,105 | 263,260 | 349,729 | 289,794 | 359,948 | 421,641 | 379,453 | 387,482 | 387,482 | 387,482 | 387,482 | 387,482 | 387,482 |
| Round Mountain | USA | 50% | 246,946 | 213,916 | 184,554 | 187,444 | 192,330 | 162,826 | 169,839 | 161,048 | 149,291 | 138,393 | 128,291 | 118,925 | 110,244 |
| Kettle River-Buckhorn | USA | 100% | 27,036 | 173,555 | 198,810 | 175,292 | 156,093 | 150,157 | 123,382 | 97,060 | 86,150 | 76,467 | 67,872 | 60,243 | 53,472 |
| Kupol-Dvoynoye | Russia | 100% | 626,543 | 925,507 | 738,667 | 653,063 | 578,252 | 550,188 | 751,101 | 751,101 | 751,101 | 751,101 | 751,101 | 751,101 | 751,101 |
| Paracatu | Brazil | 100% | 188,156 | 354,396 | 482,397 | 453,396 | 466,709 | 500,380 | 521,026 | 509,740 | 542,740 | 542,740 | 542,740 | 542,740 | 542,740 |
| Maricunga | Chile | 100% | 223,341 | 233,585 | 156,590 | 236,249 | 236,369 | 187,815 | 247,216 | 284,298 | 284,298 | 284,298 | 284,298 | 284,298 | 284,298 |
| Tasiast | Mauritania | 100% | - | - | 56,611 | 200,619 | 185,334 | 247,818 | 260,485 | 283,929 | 309,482 | 337,336 | 337,336 | 337,336 | 337,336 |
| Chirano | Ghana | 90% | - | - | 89,220 | 261,846 | 293,235 | 275,402 | 286,542 | 295,282 | 304,288 | 313,568 | 323,132 | 332,988 | 343,144 |
| Cerro Casale | Chile | 25% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| La Coipa | Chile | 100% | 226,293 | 231,169 | 196,330 | 178,287 | 178,867 | 162,405 | - | - | - | - | - | - | - |
| Crixas | Brazil | 50% | 87,669 | 74,654 | 74,777 | 66,583 | 30,994 | - | - | - | - | - | - | - | - |
| Total | | | 1,838,038 | 2,238,665 | 2,334,104 | 2,610,373 | 2,617,813 | 2,631,092 | 2,710,390 | 2,659,887 | 2,709,759 | 2,730,832 | 2,725,794 | 2,722,352 | 2,720,380 |

Figure 4: Selected Data for Kinross' gold mining properties

Kinross currently owns ten mines of which eight are currently producing. We expect 2% CAGR higher production from Fort Knox and a 2.4% CAGR higher production from Maricunga due to current investments in these two properties and the continued ramp up in production. We also modeled production 3% higher at the Chirano mine because we don't believe the power rationing crisis is as onerous as believed. The fact that output was over 3% higher in 2014 at Chirano makes us believe that there is only upside to the mine given that there were power problems throughout 2014 and the possibility that rationing may go away in 2015. Additionally, Chirano has been a high priority property given the low cost structure (\$591 production cost of sales per ounce). The two newly announced deposits will also help realize higher Cirano output. We also modeled higher output from Paracatu driven by the additional output from the Santo Antonio dam that should begin in the fourth quarter. We also think that Tasiast will be the big winner in terms of output as the company should realize significant (9%) growth in output resulting from the \$1.5 billion investment in the mine. On the negative side, we are projecting 21% lower Kettle River-Buckhorn production as the property continues to be depleted. Overall, we model 1.9% lower gold output in 2015, but a 0.6% CAGR for output through 2020.

| Property | Country | Own? | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-----------------------|------------|------|------------|------------|------------|------------|------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Fort Knox | USA | 100% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Round Mountain | USA | 50% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Kettle River-Buckhorn | USA | 100% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Kupol-Dvoynoye | Russia | 100% | 5,566,800 | 8,205,000 | 6,672,300 | 6,590,000 | 6,032,000 | 5,000,000 | 4,273,000 | 4,273,000 | 4,273,000 | 4,273,000 | 4,273,000 | 4,273,000 | 4,273,000 |
| Paracatu | Brazil | 100% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Maricunga | Chile | 100% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Tasiast | Mauritania | 100% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Chirano | Ghana | 90% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Cerro Casale | Chile | 25% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| La Coipa | Chile | 100% | 5,686,000 | 5,263,000 | 4,154,000 | 4,520,000 | 3,882,000 | 2,906,000 | - | - | - | - | - | - | - |
| Crixas | Brazil | 50% | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Total | | | 11,252,800 | 13,468,000 | 10,826,300 | 12,142,000 | 10,717,000 | 9,021,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 |

Figure 5: Selected Data for Kinross' silver mining properties

Recently, the Financial Times reported that Newmont Mining and Kinross Gold were in talks with AngloGold to acquire the Cripple Creek mine which could potentially add approximately 200,000 annual ounces to Kinross' output at an estimated all-in sustaining cost of roughly \$1,200. However, given the uncertainty of the acquisition we have excluded the effect of this potential deal from our models.



Model

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gold produced | 1,838,038 | 2,238,665 | 2,334,104 | 2,610,373 | 2,617,813 | 2,631,092 | 2,710,390 | 2,659,887 | 2,709,759 | 2,730,832 | 2,725,794 | 2,722,352 | 2,720,380 |
| Average gold price | 871.96 | 972.35 | 1224.53 | 1571.52 | 1678.52 | 1342.20 | 1250.48 | 1221.34 | 1265.31 | 1310.86 | 1358.05 | 1406.94 | 1457.59 |
| Silver produced | 11,252,800 | 13,468,000 | 10,826,300 | 12,142,000 | 10,717,000 | 9,021,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 |
| Average silver price | 14.53 | 15.03 | 22.22 | 32.56 | 31.12 | 22.30 | 18.35 | 17.00 | 18.46 | 18.50 | 20.00 | 20.76 | 21.54 |
| Revenue | 1,617.0 | 2,412.1 | 3,010.1 | 3,842.5 | 4,307.3 | 3,779.5 | 3,466.3 | 3,332.3 | 3,519.6 | 3,670.8 | 3,800.2 | 3,932.4 | 4,071.2 |
| %chg yoy | 48% | 49% | 25% | 28% | 12% | -12% | -8% | -4% | 6% | 4% | 4% | 3% | 4% |
| - Cost of Revenue | 1,042.6 | 1,047.1 | 1,249.0 | 1,546.1 | 1,849.2 | 2,004.4 | 1,971.2 | 1,892.5 | 2,031.7 | 2,111.0 | 2,227.0 | 2,354.0 | 2,501.0 |
| Gross Profit | 574.4 | 1,365.0 | 1,761.1 | 2,296.4 | 2,458.1 | 1,775.1 | 1,495.1 | 1,439.8 | 1,487.9 | 1,559.8 | 1,573.2 | 1,578.4 | 1,570.2 |
| % | 35.52% | 56.59% | 58.51% | 59.76% | 57.07% | 46.97% | 43.13% | 43.21% | 42.27% | 42.49% | 41.40% | 40.14% | 38.57% |
| - Operating Expenses | 191.9 | 751.6 | 821.5 | 934.3 | 1,156.0 | 1,418.3 | 1,213.1 | 1,227.8 | 1,244.3 | 1,251.2 | 1,249.6 | 1,248.4 | 1,247.8 |
| + Selling, General & Admin | -- | 117.7 | 144.0 | 173.6 | 179.1 | 176.6 | 178.8 | 205 | 205 | 205 | 205 | 205 | 205 |
| + Research & Development | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| + Depreciation & Amortization | -- | 447.3 | 551.5 | 564.1 | 680.9 | 828.8 | 874.7 | 877.8 | 894.2 | 901.2 | 899.5 | 898.4 | 897.7 |
| + Other Operating Expense | -- | 186.6 | 126.0 | 196.6 | 296.0 | 412.9 | 159.6 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 |
| Operating Income (Loss) | 382.5 | 613.4 | 939.6 | 1,362.1 | 1,302.1 | 356.8 | 282.0 | 212.0 | 243.6 | 308.6 | 323.7 | 329.9 | 322.5 |

Figure 6: Selected historical and financial projections

We modeled Kinross out to 2020 and used a perpetuity method to account for all the years above and beyond 2020. Gold production figures were derived from our projections at the mine level and average gold prices are derived from our expectations that over the long run, gold prices will average 3.6% real return. Silver production is de minimis and we assumed level production out to 2020 and used consensus silver price estimates. For the cost side of the equation we looked at historical relationships between Kinross' cost structure and the underlying price of gold. What we found was counterintuitive in that profit margin, EBIT margin, and EBITDA margin were all inversely correlated to the price of gold. What our evidence shows is that previous management was too aggressively optimistic regarding gold prices, did not focus enough on cost cutting and ended up hurting profitability.

SUMMARY OUTPUT

| <i>Regression Statistics</i> | |
|------------------------------|----------|
| Multiple R | 0.06706 |
| R Square | 0.0045 |
| Adjusted R Square | -0.00708 |
| Standard Error | 80.9241 |
| Observations | 88 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|------------|----------|-----------------------|
| Regression | 1 | 2544.22 | 2544.2233 | 0.388508 | 0.5347345 |
| Residual | 86 | 563189 | 6548.70894 | | |
| Total | 87 | 565733 | | | |

| | <i>Coefficients</i> | <i>Standard Err</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
|-----------|---------------------|---------------------|---------------|----------------|------------------|------------------|--------------------|--------------------|
| Intercept | -15.2445 | 15.4922 | -0.9840112 | 0.32787 | -46.042 | 15.553 | -46.042 | 15.553 |
| XAU | -0.01188 | 0.01906 | -0.6233038 | 0.534734 | -0.049782 | 0.02602 | -0.04978 | 0.02602 |

Figure 7: Regression of gold prices and KCG profit margin



SUMMARY OUTPUT

| <i>Regression Statistics</i> | |
|------------------------------|---------|
| Multiple R | 0.18749 |
| R Square | 0.03515 |
| Adjusted R Square | 0.02393 |
| Standard Error | 55.2212 |
| Observations | 88 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|------------|----------|-----------------------|
| Regression | 1 | 9554.45 | 9554.44649 | 3.133245 | 0.080255 |
| Residual | 86 | 262246 | 3049.37728 | | |
| Total | 87 | 271801 | | | |

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
|-----------|---------------------|-----------------------|---------------|----------------|------------------|------------------|--------------------|--------------------|
| Intercept | 11.0093 | 10.5716 | 1.04140499 | 0.300606 | -10.00634 | 32.025 | -10.0063 | 32.025 |
| XAU | -0.02303 | 0.01301 | -1.7700975 | 0.080255 | -0.048889 | 0.00283 | -0.04889 | 0.00283 |

Figure 8: Regression of gold prices and KCG EBIT margin

SUMMARY OUTPUT

| <i>Regression Statistics</i> | |
|------------------------------|---------|
| Multiple R | 0.24444 |
| R Square | 0.05975 |
| Adjusted R Square | 0.04882 |
| Standard Error | 53.8005 |
| Observations | 88 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|------------|----------|-----------------------|
| Regression | 1 | 15819.2 | 15819.2287 | 5.465281 | 0.0217199 |
| Residual | 86 | 248927 | 2894.49515 | | |
| Total | 87 | 264746 | | | |

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
|-----------|---------------------|-----------------------|---------------|----------------|------------------|------------------|--------------------|--------------------|
| Intercept | 36.9578 | 10.2996 | 3.58825858 | 0.000553 | 16.482758 | 57.4328 | 16.4828 | 57.4328 |
| XAU | -0.02963 | 0.01267 | -2.337794 | 0.02172 | -0.054827 | -0.00443 | -0.05483 | -0.00443 |

Figure 9: Regression of gold prices and EBITDA margin

SUMMARY OUTPUT

| <i>Regression Statistics</i> | |
|------------------------------|---------|
| Multiple R | 0.75085 |
| R Square | 0.56377 |
| Adjusted R Square | 0.5587 |
| Standard Error | 16.1991 |
| Observations | 88 |

ANOVA

| | <i>df</i> | <i>SS</i> | <i>MS</i> | <i>F</i> | <i>Significance F</i> |
|------------|-----------|-----------|------------|----------|-----------------------|
| Regression | 1 | 29165.4 | 29165.4222 | 111.144 | 3.647E-17 |
| Residual | 86 | 22567.4 | 262.411156 | | |
| Total | 87 | 51732.8 | | | |

| | <i>Coefficients</i> | <i>Standard Error</i> | <i>t Stat</i> | <i>P-value</i> | <i>Lower 95%</i> | <i>Upper 95%</i> | <i>Lower 95.0%</i> | <i>Upper 95.0%</i> |
|-----------|---------------------|-----------------------|---------------|----------------|------------------|------------------|--------------------|--------------------|
| Intercept | -4.00558 | 3.10118 | -1.2916333 | 0.199945 | -10.17052 | 2.15935 | -10.1705 | 2.15935 |
| XAU | 0.04023 | 0.00382 | 10.5424849 | 3.65E-17 | 0.0326464 | 0.04782 | 0.03265 | 0.04782 |

Figure 10: Regression of gold prices and KCG gross margin



Kinross has historically had EBITA margins of 30.6% with the lowest being 14.7% (1997) and highest being 50.1% (2011) coinciding with low and high gold prices respectively. However the EBITDA margins generally hover around roughly 30% which is testament to the mean reverting nature of margins and the highly competitive and commoditized (literally) nature of the business. Going forward, we forecast 30% EBITDA margins.

Kinross' levels of capital expenditures have gotten out of hand in recent history but the company has taken many steps to right size this aspect of their business. 2014 CapEx of \$632 million was down 49.8% relative to the 2013 figure of \$1.26 billion. Q1 CapEx only totaled 149.5 million and management has provided guidance of \$725 million in 2015, but the figure is based on a \$1,200 gold price of which approximately \$400 million is sustaining CapEx. Over the long term we project \$725 million of CapEx annually based on 0.6% CAGR of gold production.

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| EBITDA | 656.3 | 1,060.7 | 1,491.1 | 1,926.2 | 1,983.0 | 1,185.6 | 1,156.7 | 1,089.8 | 1,137.8 | 1,209.8 | 1,223.2 | 1,228.3 | 1,220.2 |
| -TAX | 101.1 | 150.8 | 332.8 | 496.8 | 259.4 | 72.4 | 109.7 | 50.9 | 58.5 | 74.1 | 77.7 | 79.2 | 77.4 |
| +DEPR TAX BENEFIT | 0.0 | 110.0 | 195.3 | 205.7 | 135.6 | 168.2 | 340.2 | 210.7 | 214.6 | 216.3 | 215.9 | 215.6 | 215.5 |
| -CAPEX | 715 | 523 | 628.3 | 1651.5 | 1860 | 1260 | 632 | 598 | 725 | 725 | 725 | 725 | 725 |
| -CHG IN NWC | 174.3 | 91.8 | -38.4 | 318.7 | 228.0 | 202.9 | 40.8 | 48.3 | 70.5 | 42.4 | 57.4 | 62.4 | 71.6 |
| FCFF | -333.8 | 405.2 | 763.7 | -335.1 | -228.8 | -181.5 | 714.5 | 603.2 | 498.5 | 584.6 | 578.9 | 577.3 | 561.7 |
| PV FCFF | | | | | | | | 571.0 | 422.8 | 444.3 | 394.3 | 352.3 | 307.1 |

Figure 11: FCFF projections

To find an appropriate discount rate we looked at rolling betas over the past five years. Currently, the beta for Kinross is 0.22 which has been driven by extremely poor performance of Kinross stock and is not indicative of the risk level over a long term horizon. Therefore, we used a historic beta of 0.51 which is also more realistic.

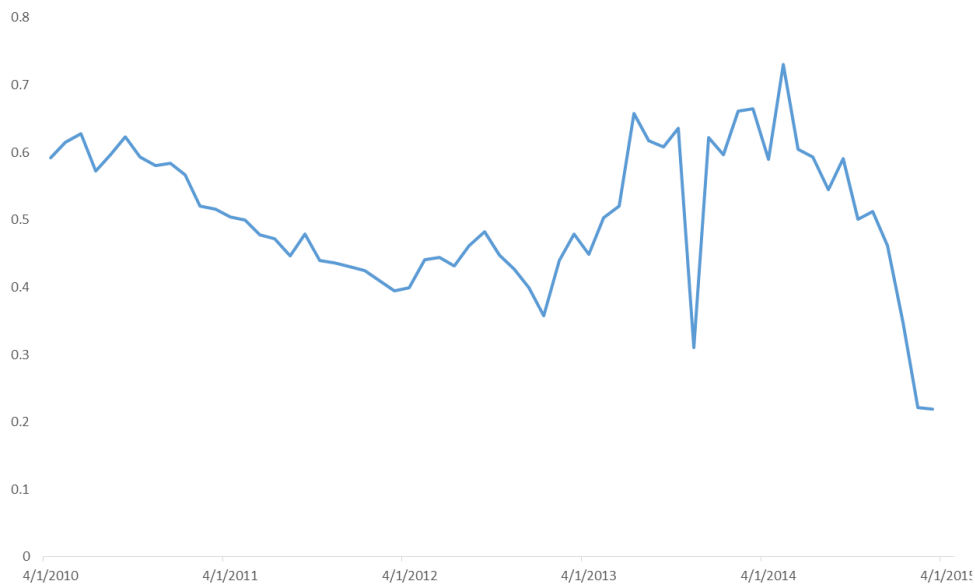


Figure 12: Rolling Beta for KGC

For our WACC we did not want to use the latest data which we viewed as fundamentally underestimating the risk of this particular company. We looked at the WACC over the past ten years which has averaged 11.6% and used this figure because it is more representative of the type of risk inherent in the stock.

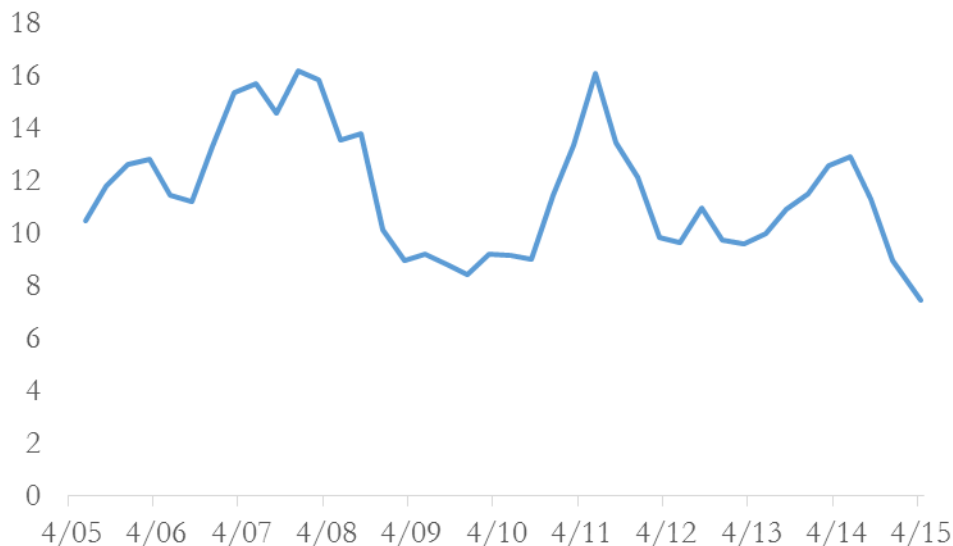


Figure 13: Estimated WACC for Kinross over time

Using our inputs we derived an intrinsic enterprise value of \$4.3 billion and backed out the equity value of approximately \$3.2 billion. This equates to \$2.82 per share which represents 14.7% upside from the current price.

| | |
|---------------------------------------|---------------------|
| WACC | 11.6% |
| Terminal Growth | 2.1% |
| PV FCF | 2,492 |
| PV Terminal Value | 1,805 |
| Enterprise Value | 4,297 |
| Debt | 2,029 |
| Minority Interest | 48 |
| Cash | 1,011 |
| Equity Value | 3,230 |
| Diluted Shares Outstanding | 1,145 |
| <i>Implied Value per Share</i> | <i>2.82</i> |
| <i>Implied Upside</i> | <i>14.7%</i> |

Figure 14: Implied equity value



| | | Terminal Growth | | | | |
|------|-------|-----------------|------|------|------|------|
| | | 1.9% | 2.0% | 2.1% | 2.2% | 2.3% |
| WACC | 11.0% | 3.02 | 3.04 | 3.06 | 3.08 | 3.10 |
| | 11.2% | 2.94 | 2.96 | 2.98 | 3.00 | 3.02 |
| | 11.4% | 2.86 | 2.88 | 2.90 | 2.92 | 2.93 |
| | 11.6% | 2.79 | 2.80 | 2.82 | 2.84 | 2.85 |
| | 11.8% | 2.72 | 2.73 | 2.75 | 2.76 | 2.78 |
| | 12.0% | 2.65 | 2.66 | 2.68 | 2.69 | 2.71 |
| | 12.2% | 2.58 | 2.60 | 2.61 | 2.63 | 2.64 |

Figure 15: Sensitivity table for various WACC and g inputs

Sensitivity Analysis

Because of the uncertainty involved with the underlying price of gold we included a sensitivity analysis. Besides our base case outlined above, we included a bull and bear case which represents two alternative potential scenarios. Current implied volatility for gold is approximately 18%. We used this annualized volatility figure to create scenarios out to 2020 for bull and bear markets in gold and took one standard deviation estimates for each to derive average gold prices for each year. For 2019 and 2020 we assumed a more normalized 3.6% growth rate because this represents the long term average real return and the fact that bull or bear markets will not last forever. Under the bull case, the intrinsic value is \$3.90 or 59% upside while the bear case intrinsic value is \$1.98 or 20% downside. From this framework Kinross provides a favorable risk-reward profile.



Figure 16: KGC price history and our price target with bull, base and bear cases (log scale)



| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gold produced | 1,838,038 | 2,238,665 | 2,334,104 | 2,610,373 | 2,617,813 | 2,631,092 | 2,710,390 | 2,713,085 | 2,763,954 | 2,785,449 | 2,780,309 | 2,776,799 | 2,774,788 |
| Average gold price | 871.96 | 972.35 | 1224.53 | 1571.52 | 1678.52 | 1342.20 | 1250.48 | 1356.44 | 1469.70 | 1546.95 | 1609.74 | 1667.69 | 1727.73 |
| Silver produced | 11,252,800 | 13,468,000 | 10,826,300 | 12,142,000 | 10,717,000 | 9,021,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 |
| Average silver price | 14.53 | 15.03 | 22.22 | 32.56 | 31.12 | 22.30 | 18.35 | 17.00 | 18.46 | 18.50 | 20.00 | 20.76 | 21.54 |
| Revenue | 1,617.0 | 2,412.1 | 3,010.1 | 3,842.5 | 4,307.3 | 3,779.5 | 3,466.3 | 3,763.8 | 4,153.0 | 4,400.0 | 4,574.0 | 4,733.0 | 4,900.1 |
| %chg yoy | 48% | 49% | 25% | 28% | 12% | -12% | -8% | 9% | 10% | 6% | 4% | 3% | 4% |
| - Cost of Revenue | 1,042.6 | 1,047.1 | 1,249.0 | 1,546.1 | 1,849.2 | 2,004.4 | 1,971.2 | 1,951.1 | 2,058.0 | 2,204.0 | 2,313.0 | 2,810.0 | 3,102.0 |
| Gross Profit | 574.4 | 1,365.0 | 1,761.1 | 2,296.4 | 2,458.1 | 1,775.1 | 1,495.1 | 1,812.8 | 2,095.0 | 2,196.0 | 2,261.0 | 1,923.0 | 1,798.1 |
| % | 35.52% | 56.59% | 58.51% | 59.76% | 57.07% | 46.97% | 43.13% | 48.16% | 50.45% | 49.91% | 49.43% | 40.63% | 36.70% |
| - Operating Expenses | 191.9 | 751.6 | 821.5 | 934.3 | 1,156.0 | 1,418.3 | 1,213.1 | 1,227.8 | 1,244.3 | 1,251.2 | 1,249.6 | 1,248.5 | 1,247.8 |
| + Selling, General & Admin | -- | 117.7 | 144.0 | 173.6 | 179.1 | 176.6 | 178.8 | 205 | 205 | 205 | 205 | 205 | 205 |
| + Research & Development | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| + Depreciation & Amortization | -- | 447.3 | 551.5 | 564.1 | 680.9 | 828.8 | 874.7 | 877.8 | 894.2 | 901.2 | 899.5 | 898.4 | 897.7 |
| + Other Operating Expense | -- | 186.6 | 126.0 | 196.6 | 296.0 | 412.9 | 159.6 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 |
| Operating Income (Loss) | 382.5 | 613.4 | 939.6 | 1,362.1 | 1,302.1 | 356.8 | 282.0 | 585.0 | 850.8 | 944.8 | 1,011.5 | 674.6 | 550.4 |

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|--------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| EBITDA | 656.3 | 1,060.7 | 1,491.1 | 1,926.2 | 1,983.0 | 1,185.6 | 1,156.7 | 1,462.8 | 1,745.0 | 1,846.0 | 1,911.0 | 1,573.0 | 1,448.1 |
| -TAX | 101.1 | 150.8 | 332.8 | 496.8 | 259.4 | 72.4 | 109.7 | 140.4 | 204.2 | 226.8 | 242.8 | 161.9 | 132.1 |
| +DEPR TAX BENEFIT | 0.0 | 110.0 | 195.3 | 205.7 | 135.6 | 168.2 | 340.2 | 210.7 | 214.6 | 216.3 | 215.9 | 215.6 | 215.5 |
| -CAPEX | 715 | 523 | 628.3 | 1651.5 | 1860 | 1260 | 632 | 725 | 900 | 900 | 900 | 725 | 725 |
| -CHG IN NWC | 174.3 | 91.8 | -38.4 | 318.7 | 228.0 | 202.9 | 40.8 | 48.3 | 70.5 | 42.4 | 57.4 | 62.4 | 71.6 |
| FCHF | -333.8 | 405.2 | 763.7 | -335.1 | -228.8 | -181.5 | 714.5 | 759.7 | 784.9 | 893.1 | 926.7 | 839.3 | 734.9 |
| PV FCF | -644.9 | 701.4 | 1184.7 | -465.7 | -284.9 | -202.6 | 714.5 | 680.7 | 630.2 | 642.6 | 597.4 | 484.8 | 380.4 |

| | |
|--------------------------------|--------------|
| WACC | 11.6% |
| Terminal Growth | 2.1% |
| PV FCF | 3,416 |
| PV Terminal Value | 2,116 |
| Enterprise Value | 5,532 |
| Debt | 2,029 |
| Minority Interest | 48 |
| Cash | 1,011 |
| Equity Value | 4,466 |
| Diluted Shares Outstanding | 1,145 |
| <i>Implied Value per Share</i> | <i>3.90</i> |
| <i>Implied Upside</i> | <i>58.5%</i> |

Figure 17: Bull Case

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Gold produced | 1,838,038 | 2,238,665 | 2,334,104 | 2,610,373 | 2,617,813 | 2,631,092 | 2,710,390 | 2,633,289 | 2,655,564 | 2,648,907 | 2,616,762 | 2,613,458 | 2,611,565 |
| Average gold price | 871.96 | 972.35 | 1224.53 | 1571.52 | 1678.52 | 1342.20 | 1250.48 | 1140.87 | 936.49 | 921.47 | 877.70 | 909.29 | 942.03 |
| Silver produced | 11,252,800 | 13,468,000 | 10,826,300 | 12,142,000 | 10,717,000 | 9,021,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 | 4,923,000 |
| Average silver price | 14.53 | 15.03 | 22.22 | 32.56 | 31.12 | 22.30 | 18.35 | 17.00 | 18.46 | 18.50 | 20.00 | 20.76 | 21.54 |
| Revenue | 1,617.0 | 2,412.1 | 3,010.1 | 3,842.5 | 4,307.3 | 3,779.5 | 3,466.3 | 3,087.9 | 2,577.8 | 2,532.0 | 2,395.2 | 2,478.6 | 2,566.2 |
| %chg yoy | 48% | 49% | 25% | 28% | 12% | -12% | -8% | -11% | -17% | -2% | -5% | 3% | 4% |
| - Cost of Revenue | 1,042.6 | 1,047.1 | 1,249.0 | 1,546.1 | 1,849.2 | 2,004.4 | 1,971.2 | 1,804.0 | 1,589.0 | 1,547.0 | 1,443.0 | 1,456.0 | 1,451.0 |
| Gross Profit | 574.4 | 1,365.0 | 1,761.1 | 2,296.4 | 2,458.1 | 1,775.1 | 1,495.1 | 1,283.9 | 988.8 | 985.0 | 952.2 | 1,022.6 | 1,115.2 |
| % | 35.52% | 56.59% | 58.51% | 59.76% | 57.07% | 46.97% | 43.13% | 41.58% | 38.36% | 38.90% | 39.75% | 41.26% | 43.46% |
| - Operating Expenses | 191.9 | 751.6 | 821.5 | 934.3 | 1,156.0 | 1,418.3 | 1,213.1 | 1,227.8 | 1,244.3 | 1,251.3 | 1,249.6 | 1,248.5 | 1,247.8 |
| + Selling, General & Admin | -- | 117.7 | 144.0 | 173.6 | 179.1 | 176.6 | 178.8 | 205 | 205 | 205 | 205 | 205 | 205 |
| + Research & Development | -- | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| + Depreciation & Amortization | -- | 447.3 | 551.5 | 564.1 | 680.9 | 828.8 | 874.7 | 877.8 | 894.2 | 901.2 | 899.5 | 898.4 | 897.7 |
| + Other Operating Expense | -- | 186.6 | 126.0 | 196.6 | 296.0 | 412.9 | 159.6 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 | 145.0 |
| Operating Income (Loss) | 382.5 | 613.4 | 939.6 | 1,362.1 | 1,302.1 | 356.8 | 282.0 | 56.2 | -255.5 | -266.3 | -297.4 | -225.9 | -132.6 |

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|-------------------|--------|---------|---------|---------|---------|---------|---------|-------|-------|-------|-------|-------|-------|
| EBITDA | 656.3 | 1,060.7 | 1,491.1 | 1,926.2 | 1,983.0 | 1,185.6 | 1,156.7 | 933.9 | 638.7 | 634.9 | 602.1 | 672.5 | 765.1 |
| -TAX | 101.1 | 150.8 | 332.8 | 496.8 | 259.4 | 72.4 | 109.7 | 13.5 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| +DEPR TAX BENEFIT | 0.0 | 110.0 | 195.3 | 205.7 | 135.6 | 168.2 | 340.2 | 210.7 | 214.6 | 216.3 | 215.9 | 215.6 | 215.5 |
| -CAPEX | 715 | 523 | 628.3 | 1651.5 | 1860 | 1260 | 632 | 499 | 400 | 400 | 400 | 400 | 400 |
| -CHG IN NWC | 174.3 | 91.8 | -38.4 | 318.7 | 228.0 | 202.9 | 40.8 | 48.3 | 70.5 | 42.4 | 57.4 | 62.4 | 71.6 |
| FCHF | -333.8 | 405.2 | 763.7 | -335.1 | -228.8 | -181.5 | 714.5 | 583.8 | 582.8 | 408.8 | 360.5 | 425.7 | 509.0 |
| PV FCF | -644.9 | 701.4 | 1184.7 | -465.7 | -284.9 | -202.6 | 714.5 | 523.1 | 307.4 | 294.1 | 232.4 | 245.9 | 263.5 |



| | |
|--------------------------------|---------------|
| WACC | 11.6% |
| Terminal Growth | 2.1% |
| PV FCF | 1,866 |
| PV Terminal Value | 1,466 |
| Enterprise Value | 3,332 |
| Debt | 2,029 |
| Minority Interest | 48 |
| Cash | 1,011 |
| Equity Value | 2,266 |
| Diluted Shares Outstanding | 1,145 |
| <i>Implied Value per Share</i> | <i>1.98</i> |
| <i>Implied Upside</i> | <i>-19.6%</i> |

Figure 18: Bear Case

Gold prices used in our model

Since the end of the gold standard in the US, gold has appreciated at an annual real rate of 3.6%. Although this does not tell us where gold will be with any degree of certainty over a one, three or even five year time horizon, it should give us an adequate estimate of what gold returns over a very long term horizon will be. Given that we are making a long term call on the stock we would view the drastic temporary changes in the price of gold as just that – temporary and thus use a 3.6% annual return in our model.

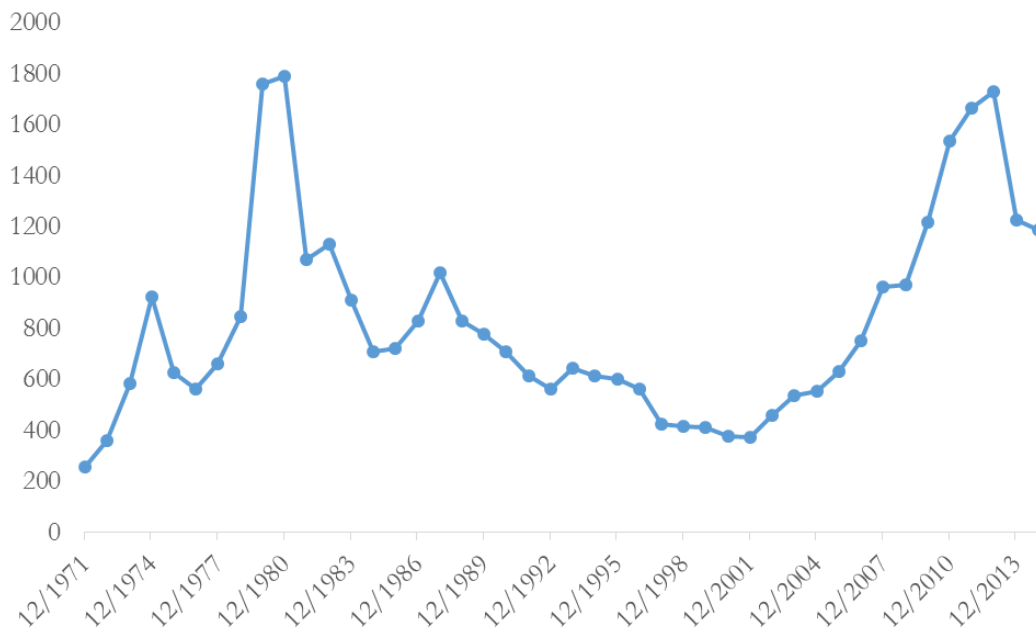


Figure 19: Historical year end prices for gold

We also examined the relationship between global gold demand and prices and found a statistically significant relationship. However, our analysis has an extremely high standard error that makes any potential forecast for gold extremely difficult. Even if we could forecast demand perfectly we would still not know gold prices with any degree of certainty.



SUMMARY OUTPUT

| Regression Statistics | |
|-----------------------|-----------|
| Multiple R | 0.2794221 |
| R Square | 0.0780767 |
| Adjusted R S | 0.0462863 |
| Standard Err | 358.22861 |
| Observations | 31 |

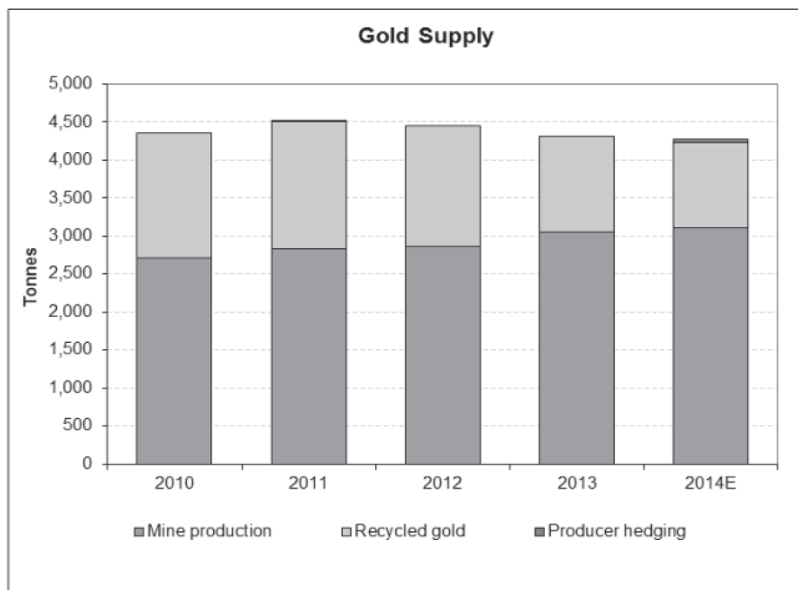
| ANOVA | | | | | |
|------------|----|------------|----------|-------------|----------------|
| | df | SS | MS | F | Significance F |
| Regression | 1 | 315170.34 | 315170.3 | 2.455979941 | 0.1279263 |
| Residual | 29 | 3721504.28 | 128327.7 | | |
| Total | 30 | 4036674.62 | | | |

| | Coefficients | Standard Error | t Stat | P-value | Lower 95% | Upper 95% | Lower 95.0% | Upper 95.0% |
|-----------|--------------|----------------|----------|-------------|-----------|------------|-------------|-------------|
| Intercept | 307.00388 | 308.438755 | 0.995348 | 0.327800195 | -323.8242 | 937.831964 | -323.8242 | 937.831964 |
| Demand | 0.1289275 | 0.0822684 | 1.567157 | 0.127926316 | -0.03933 | 0.29718524 | -0.03933 | 0.29718524 |

Figure 20: Regression of gold prices and demand

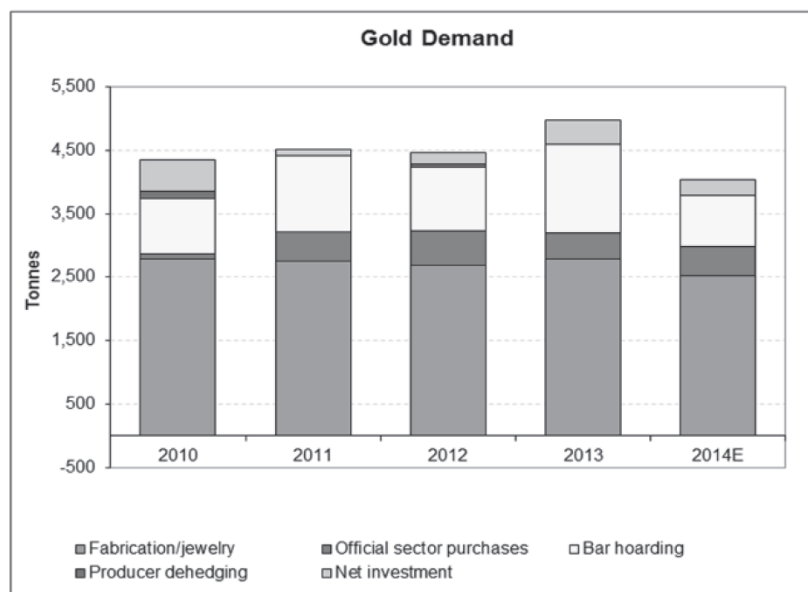
| Year | Demand | Real Price | Year | Demand | Real Price | Year | Demand | Real Price |
|------|--------|------------|------|--------|------------|------|--------|------------|
| 2014 | 4,278 | \$ 1,188 | 2003 | 4,241 | \$ 529 | 1992 | 3,488 | \$ 551 |
| 2013 | 5,007 | \$ 1,215 | 2002 | 4,045 | \$ 452 | 1991 | 3,129 | \$ 602 |
| 2012 | 4,522 | \$ 1,715 | 2001 | 3,915 | \$ 371 | 1990 | 3,096 | \$ 672 |
| 2011 | 4,522 | \$ 1,628 | 2000 | 3,889 | \$ 368 | 1989 | 3,076 | \$ 748 |
| 2010 | 4,453 | \$ 1,523 | 1999 | 4,205 | \$ 402 | 1988 | 2,683 | \$ 800 |
| 2009 | 4,372 | \$ 1,195 | 1998 | 4,143 | \$ 413 | 1987 | 2,273 | \$ 985 |
| 2008 | 4,046 | \$ 978 | 1997 | 4,217 | \$ 419 | 1986 | 2,238 | \$ 826 |
| 2007 | 3,987 | \$ 932 | 1996 | 3,535 | \$ 547 | 1985 | 1,995 | \$ 702 |
| 2006 | 3,994 | \$ 740 | 1995 | 3,657 | \$ 593 | 1984 | 1,849 | \$ 689 |
| 2005 | 4,127 | \$ 617 | 1994 | 3,344 | \$ 602 | | | |
| 2004 | 3,864 | \$ 540 | 1993 | 3,477 | \$ 630 | | | |

Figure 21: Global gold demand and prices since 1984



Source: GFMS Gold Survey 2014

Figure 22: Sources of gold supply (Source: [GFMS](#))



Source: GFMS 2014 Gold Survey

Figure 23: Sources of gold demand (Source: GFMS)

Peer Analysis

| Ticker | Name | MC (\$M) | EV/EBITDA | P/E | Gold Prod | P/FCF | TR:Y-1 | Dvd Yld | P/B | AISC |
|--------|-------------------------|----------|-----------|-------|-----------|-------|--------|---------|-----|-------|
| KGC US | KINROSS GOLD CORP | 2.83B | -- | -- | -- | 10.1 | (39.1) | 0.0 | 0.6 | 965 |
| RGLD | USROYAL GOLD INC | 4.31B | 20.6 | 113.2 | 1.4 | 45.8 | 1.3 | 0.0 | 1.8 | -- |
| YRI CN | YAMANA GOLD INC | 3.56B | -- | -- | 1.2 | -- | (47.4) | 0.0 | 0.5 | 807 |
| ELD CN | ELDORADO GOLD CORP | 3.57B | 9.5 | 53.6 | 0.8 | -- | (17.3) | 0.0 | 0.7 | -- |
| DGC CN | DETOUR GOLD CORP | 1.90B | 15.1 | -- | 0.5 | -- | 4.7 | 0.0 | 1.0 | -- |
| NGD CN | NEW GOLD INC | 1.66B | -- | -- | 0.4 | -- | (33.2) | 0.0 | 0.7 | 779 |
| BTO CN | B2GOLD CORP | 1.45B | -- | -- | 0.4 | -- | (43.9) | 0.0 | 1.0 | 1.10k |
| CG CN | CENTERRA GOLD INC | 1.32B | 2.3 | 17.6 | 0.6 | 10.2 | 13.2 | 0.0 | 0.9 | 852 |
| OR CN | OSISKO GOLD ROYALTIES L | 1.30B | -- | -- | -- | -- | -- | -- | -- | -- |
| NG CN | NOVAGOLD RESOURCES INC | 1.24B | -- | -- | -- | -- | 22.0 | 0.0 | 4.2 | -- |

Figure 24: Selected North American gold mining peers (Source: Bloomberg)

Sources

Bloomberg

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