



Global Securities Market Bulletin

January 29, 2010

Issue No.36

Courtesy: Global Securities Research

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COMMENTARY – A much-needed correction

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In our opinion, the current correction is just what the markets need to dispel some of the “froth” that was manifesting itself in a number of sectors.

The sense of optimism that was evident at the beginning of this year has been blown away by concerns that have surfaced over the past couple of weeks – President Obama’s proposed restrictions on US banks, China’s tightening measures, apprehensions about sovereign debt as a result of Greece’s problems, and somewhat weak economic data (notably the jobs and housing numbers). As a result, some of the inordinate risk appetite that has been so evident since the rally commenced in March has vanished.

But in the overall scheme of things, we believe this correction may be only a minor blip, and not a major down leg for equity markets. The TSX Composite has declined about 1,000 points or 7% from its 16-month high of 12,070 reached on January 11, while the S&P 500 has fallen 6% from a high of about 1,150 reached on January 19. These declines should be viewed against the context of a 61% advance in the TSX Composite and a 73% surge in the S&P 500 from their March 2009 lows.

With the S&P 500 and DJIA looking set to end the first month of 2010 with a 3% decline, one hopes that the “January Barometer” proves to be as incorrect this year as it was last year. (The “January Barometer” holds that the S&P 500 follows the trend set in January for the rest of the year, a relationship that has proved accurate over 90% of the time since 1972, according to the Stock Trader’s Almanac).

From a trading perspective, we believe that there may be some additional downside in the near-term before the markets turn around. In our opinion, such a turnaround may only occur when the concerns noted earlier take a backseat and investors refocus their attention on corporate earnings and the robust numbers that have been reported by a number of bellwether stocks so far.

TRADE UPDATES

Kinross Gold – Reiterate Buy rating with \$25 target

Kinross Gold (TSX: K, \$17.45), down 10% so far this year, is now at levels that we consider to be quite compelling from a longer-term perspective. Kinross remains our top pick among large-cap gold producers and we reiterate our Buy rating with a \$25 target.

Kinross has declined about 21% over the past year, a period during which gold priced in Canadian dollars has gained 4%. As the chart below shows, the stock’s decline has far outpaced the recent drop in the price of gold.

Kinross said yesterday that its total proven and probable mineral reserves as at December 31, 2009, increased by 5.4 million ounces or 12% to 51 million ounces. The company declared its first mineral reserve as planned at the Lobo-Marté project in Chile, with proven and probable gold reserves of 5.6 million ounces grading at 1.22 grams of gold per tone. In addition, it upgraded mineral reserves at its Fruta del Norte project in Ecuador, with a measured and indicated gold resource of 5.7 million ounces, plus an inferred resource of 6.1 million ounces. Kinross CEO Tye Burt said that with proven and probable gold reserves increasing by 31 million ounces over the past five years or 21% annually, the company has now surpassed the 50-million ounce milestone.

Earlier this month, Kinross agreed to buy two properties nears its Kupol mine in eastern Russia for \$368 million. On January 14, the company provided preliminary operating results for 2009 and its outlook for 2010. There were no surprises here, with the numbers in line with previous guidance. 2009 production is expected to be about 2.23 million gold equivalent ounces, up 21% over 2008 output, with 2010 production forecast at 2.2 million ounces.

Average cost of sales per gold equivalent ounce is forecast at US\$435-450 for 2009, rising approximately 7.5% to US\$460-490 in 2010.

Kinross said that it expects performance and production at its Paracatu project in Brazil to improve this year. Operating challenges at the Paracatu expansion project have affected production and costs in recent quarters.

We had recommended Kinross as a Buy at \$20.04 on November 6, 2009, subsequent to which the stock hit an interim high of \$23.07 on December 2. The stock has plunged 24% since then, as a result of which valuations have improved significantly. With analysts' average EPS estimates currently at US\$0.47 (or C\$0.50) for FY09, rising 45% to US\$0.68 (C\$0.73) in FY10, the stock now trades at a forward multiple of less than 24x, compared with 28x in November.

As noted earlier, we reiterate our Buy rating with a \$25 target.

Kinross Gold vs. TSX Global Gold Index – One-year price chart (daily)



Source: Bloomberg

Market Snapshot at 12:30 am

| S&P TSX | 11096.79 | -177.41 | Commodities | | | Yields (%) | Can. | US |
|-------------|----------|---------|------------------|---------|-------|---------------|------|------|
| TSX Venture | 1491.02 | -10.78 | Canadian \$ | 93.54 | -0.24 | 90 Day T-Bill | 0.12 | 0.07 |
| DJIA | 10068.01 | -52.45 | Gold (Spot)-US\$ | 1080.07 | -7.03 | 2-Year Bond | 1.17 | 0.83 |
| S&P 500 | 1074.32 | -10.21 | Oil (WTI-Feb.) | 72.76 | -0.88 | 10-Yr. Bond | 3.33 | 3.60 |
| NASDAQ | 2144.28 | -34.72 | CRB Index | 265.59 | -1.99 | 30-Yr. Bond | 3.94 | 4.50 |

Thought for the Day

“Ability will never catch up with the demand for it.” – Malcolm Forbes

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