



Barrick, Goldcorp, or Newmont – Who’s the Cheapest?

Description

I don’t know about you, but I can’t get gold stocks out of my head these days. Even though the commodity has been relatively stable, gold mining stocks just keep going lower. This week, it was a Goldman Sachs “short” recommendation for the commodity that sent the space reeling. Who knows what dire news next week may bring.

This is why investing is hard!

If one compares the multiples at which the company’s in the gold space currently trade to historical levels, this appears to be the opportunity of a lifetime. The table below compares the current price/book multiples for **Barrick** (TSX:ABX,NYSE:ABX), **Newmont** ([NYSE:NEM](#)) and **Goldcorp** (TSX:G,NYSE:GG) to their 10-year averages. The difference is astonishing and enough to make any value oriented investor sit up and take note.

Company	Current P/B	10 Yr Avg P/B
Barrick Gold	1.1	2.5
Newmont	1.4	2.4
Goldcorp	1.1	2.6

Source: *Capital IQ*

The stocks appear cheap. Real cheap! But, they’ve appeared cheap for some time based on multiple analysis.

To get a better feel for what these three companies are worth we’re going to take an alternate

approach. Warning....math ahead.

What's priced in?

We know the current book value for each and we also know what the market is expecting for 2013 earnings. The table below combines these inputs and conveys an expected return on equity (ROE) for each (earnings/book value = ROE). We can then compare this expected number to the average ROE that each company has achieved over the past 10 years. This allows us to gauge the market's expectations.

Company	Expected ROE	10 Yr. Avg ROE
Barrick Gold	17%	9.5%
Newmont	13%	10.5%
Goldcorp	7%	9.4%

Source: Capital IQ

Even though the multiples have washed out, market expectations for two of the three haven't. For instance, the market is pricing Barrick as though it's going to achieve an ROE of 17% this year. This is far above the 10 year average of 9.5%. And, I dropped the company's 2009 ROE of -28% from the calculation. If included, the average is 5.8%.

Stay with me

Last table. Conveyed below are some rough earnings estimates based on current book values and the average ROEs from above (book value*ROE = earnings). Assuming multiple expansion does not occur, the current trailing P/E multiple has been applied to each estimate to arrive at a value.

Company	Est. EPS	LTM P/E	Value	Current Price
Barrick Gold	\$2.07	9.6	\$19.90	\$24.95
Newmont	\$2.91	10.3	\$29.99	\$38.74
Goldcorp	\$2.63	16.2	\$42.62	\$31.57

Source: *Capital IQ*

Based on this analysis, only Goldcorp should be considered “cheap”.

The Foolish Bottom Line

These are back-of-the-envelope type calculations but serve as a quick and relatively easy way to assess what’s priced in and what each company may be worth. With this bit of knowledge in hand, I’m at least going to sleep a little better knowing I shouldn’t be re-mortgaging the house to buy Barrick or Newmont! Goldcorp though – hmmmmm.....

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Fool contributor Iain Butler is short \$32 July 2013 put options on Goldcorp and owns shares outright in Barrick Gold. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:ABX (Barrick Mining)

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