



Digging For Gold, Miners

Description

The gold miners are currently providing either a tremendous buying opportunity should the commodity rebound, or a complete sucker's bet if gold's slide continues. Opinions of course vary on which of these two outcomes will transpire. If you are looking to buy gold miners, or currently own some, you need to know the impact that both scenarios might have.

Net Asset Values

The folks at RBC Capital Markets publish a weekly table that provides the net asset value (NAV) sensitivity that many of the Tier 1 and Tier II miners have to the price of gold.

We're going to use the table to source out several names that will both provide upside if gold rebounds and some relative protection if the price slides further.

Tier I name

Of the senior names provided in RBC's list, the hands down name to hold is **Goldcorp** (TSX:G,NYSE:GG). It is the only one of the three other North American seniors provided that will not carry a negative NAV should the price of gold fall to, and remain at \$1,000/oz.

Tier II names

The tier II group holds a few more names that offer the characteristics that we're after. Out of all the names, including the seniors, the most attractive in terms of NAV valuation is **Allied Nevada** (NYSEMKT:ANV). According to RBC's calculations, Allied currently trades at just 0.7 times what the company's NAV would be at \$1,000/oz gold. This multiple declines to just 0.4 times the NAV at \$1,600/oz gold. If Allied were to trade at the tier II average of 1.3 times \$1,000/oz NAV, the stock would be worth \$22.71, 92% higher than it currently trades. The \$1,600/oz return scenario is much higher than this.

Another mid-tier that offers significant leverage on the upside but is slightly less defensively valued is **Agnico-Eagle** (TSX:AEM,NYSE:AEM). Like Allied, AEM trades at 0.4 times \$1,600/oz NAV. Were it

to trade at the 1.85 group average multiple, Agnico's stock price would be close to \$84 – a more than 150% move.

Foolish Takeaway

Like all resource based stocks, the direction the commodity takes from here will dictate whether or not you win or lose in this space. Based on their NAVs, these names however appear to at least offer a reasonable risk/reward trade-off and stand to make a nice gain should gold someday shine again.

The S&P/TSX Composite Index is loaded with resource and financial stocks. Because of this, investors that rely on Canadian Index funds or ETFs severely lack diversification in their portfolio, opening them to undue risks. We have created a special report that outlines an easy to implement strategy and 5 Canadian stocks that reduce the risks involved with passively investing in the Canadian market. [Click here now](#) to receive **"Buy These 5 Companies Instead of Following a Flawed Piece of Advice"** – FREE!

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

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)

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