



Gold Stocks: When is Enough Enough?

Description

With yesterday’s plundering, gold stocks firmly re-entrenched themselves as the goats of the Canadian market. Have a look at today’s print of the 52-week low list. The who’s who of Canada’s gold space are all represented.

While pinpointing a “value” for gold itself is impossible, it’s safe to assume that it’s not worthless. And as long as gold carries some value, so too will the company’s that mine it. Therefore, there’s a floor for these stocks. Identifying this floor however is rather difficult given the valuation difficulties that pertain to the underlying commodity. MS Excel might refer to this as a “circular reference”.

We can however put the current valuation of the miners into perspective. If you believe in mean reversion, gold mining stocks are screaming buys. As the table below indicates, all 5 of these mid/senior tier names are trading waaaaay below their 10-year average book value multiples.

Not only that. They’re trading below book value, period. This implies that the market doesn’t believe in the value that these companies have ascribed to their gold producing assets.

Write-downs are no doubt coming. However, assuming mean reversion, the assumed size of these expected write-downs appears rather astronomical.

As indicated in the table, assuming Barrick’s “natural” book multiple is 2.5, the market is implying that the company is going to write-off 73% of its book value! That’s more than \$18 billion of the company’s current book value of \$25 billion.

These companies hardly deserve credit for preserving shareholder value in recent years, but this seems rather excessive.

Here’s the table:

Company Name	Current P/B	10 Yr. Avg P/B	Implied BV*	% of Current B
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Agnico-Eagle (TSX:AEM)	1.3	3.1	\$1,471.9	42.5
Yamana (TSX:YRI)	0.9	2.2	\$3,307.1	41.8
Goldcorp (TSX:G)	0.8	2.6	\$7,479.8	32.4
Barrick Gold (TSX:ABX)	0.7	2.5	\$6,846.8	27.1
Kinross (TSX:K)	0.6	1.8	\$3,304.6	33.0

*BV = Book Value Source: Capital IQ

Foolish Takeaway

Given their current valuations, if the price of gold can demonstrate an ability to hold at current levels, these gold mining stocks are due for a serious bout of multiple expansion. However, with the Fed expecting to pull back on quantitative easing, it's challenging to believe that the price of the underlying commodity will stabilize anytime soon.

Tired of your investments being tied to the wild fluctuations of an underlying commodity? Then [click here now](#) to download our special **FREE** report "**3 U.S. Companies That Every Canadian Should Own**".

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Fool contributor Iain Butler is short \$14 June 2013 put options on Yamana, \$32 July 2013 put options on Goldcorp and owns shares of Yamana Gold and Barrick Gold. The Motley Fool has no position in any stocks mentioned at this time.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:K (Kinross Gold Corporation)
4. TSX:YRI (Yamana Gold)

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