Add Some Shine to Your Portfolio With New Gold

Description

Since the rout in emerging markets earlier this year, the price of gold has continued to rally. At the time of writing it has spiked by almost 8% for the year-to-date to $1,320 per ounce. This has led to increasing speculation among some investors and market pundits that gold will continue rallying from the lows seen in 2013, making now the time to invest in beaten down gold mining stocks.

What is the outlook for gold in 2014?
Whether this is a new and sustainable rally in gold prices is questionable. The consensus forecast among six of the world's largest investment banks is the price of gold will drop to $1,209 per ounce or 8% below its current price. Of these the lowest prediction comes from Deutsche Bank, with its analysts predicting gold will slump to as low as $1,141 per ounce in 2014 or almost 14% below the current price.

The pessimistic outlook for gold prices coupled with a flood of bad news across the industry including significant impairment charges on mediocre quality mining assets has seen gold mining stocks beaten over the last year. But this does not mean that investors should ignore Canada's burgeoning gold mining industry.

Better cost control and lower production costs coupled with smarter deployment of capital makes the industry increasingly more attractive for investors. When coupled with firmer bullion prices it is clear that many miners particularly juniors have been oversold and offer considerable opportunity for investors.

What are the best opportunities in the industry?
It is certainly difficult to look past gold mining behemoth **Barrick Gold** (TSX:ABX)(NYSE:ABX). Not only was the company able to restore its balance sheet with a successful equity raising late last year, but it has since cleared the decks for 2014 making a series of write-downs totaling U.S.$2.8 billion.

It also appears particularly cheap despite its share price spiking 11% for the year to date. Barrick has an enterprise value of only five times EBITDA and a market cap-to-reserves ratio of $196 per ounce of gold, making Barrick a compelling play for investors.

But there are also a range of higher conviction investment plays among Canadian small-cap miners, with one of the most outstanding being intermediate gold producer **New Gold** (TSX:NGD)(NYSE:NGD). The company is set to report an impressive fourth quarter and full year 2013, having met its 2013 guidance.

It is also one of the lowest cost producers in its industry with full year 2013 all in sustaining costs of $899 per ounce of gold produced. This is lower than Barrick's $915 per ounce, Goldcorp's $1,031 per ounce and Yamana Gold's $947 per ounce.

But the good news doesn't stop there. New Gold finished the year with U.S. $414 million of cash on hand and gold reserves shooting up by a monster 127% to 18.5 million ounces of gold. All of which indicates the company is firing on all cylinders despite softer precious metal prices, leaving it well positioned to perform strongly in 2014.

New Gold's 2014 outlook is positive
With firmer gold prices and New Gold's low all in sustaining costs per ounce of gold produced, I am expecting it to deliver a solid performance for 2014. Management advised they are targeting a 23% increase in production at the company's low cost New Afton mine, with full year production of 380,000 to 430,000 ounces of gold.

They are also targeting all in sustaining costs of $815 to $835 per ounce, which is 7% lower than its all in sustaining costs for 2013. That would allow New Gold to not only remain one of the lowest cost producers in the industry but to grow its margin per ounce of gold produced even if the price of bullion continues to slide.

The company will also continue to further explore and develop the undeveloped sections around the New Afton mine. The exploration and development of this asset in 2013 alone saw a more than tenfold growth in gold resources and management expect similar results in 2014.

Finally, despite New Gold's share price spiking almost 18% for the year to date, it remains attractively valued. It has an enterprise value of 9 times EBITDA and a market-cap to reserves ratio of $203 per ounce of gold.

Foolish bottom line
Firmer bullion prices are making gold mining stocks appear more enticing for investors with many companies still attractively valued despite share prices firming over the last weeks. Gold mining giant Barrick — despite its poor 2013 results — continues to offer investors value, but intermediate gold miner New Gold remains my preferred pick in the industry.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:NGD (New Gold Inc.)

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