



## Choose These 3 Stocks to Cash in on the Gold Rally

### Description

Contrary to the claims of naysayers, gold continues to rally despite softening from recent highs to \$1,325 per ounce. This has brought the investment spotlight firmly back onto beaten-down gold miners, and with many trading with a range of attractive valuation multiples, now is the time for investors to take the plunge.

A key reason for investing in gold miners is that they offer a leveraged play on gold, with the potential to deliver higher returns to investors than an investment in the physical metal or an exchange-traded fund like **SPDR Gold Shares** (NYSE: GLD).

It is also expected that there will be firmer gold prices for the foreseeable future, as inflationary pressures, geopolitical tension, growing demand, and supply shortages underpin the price.

### **This industry titan continues to trade at a considerable discount**

By mid-2013, **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) was listing badly with an overleveraged balance sheet and a range of costly and uneconomic projects on its books. However, after making a series of write-downs against those questionable assets and rebuilding its shattered balance sheet through a successful equity raising, as well as focusing on the divestment of non-core assets and reducing costs, the company is well positioned to cash in on higher gold prices.

Not only is it trading with some attractive valuation metrics, including an enterprise value of a mere five times EBITDA and equal to \$28 per ounce of gold reserves, the company has some of the lowest operating costs in the industry.

For the first quarter of 2014 it reported all-in-sustaining-costs of \$833 per ounce, leaving it well-positioned to hit its 2014 forecast all-in-sustaining-costs of \$980 per ounce. This highlights the healthy margin per ounce of gold produced that Barrick is able to generate at the current gold price, boding well for its profitability.

### **This industry heavyweight continues to rein in costs**

The world's second-largest gold miner, **Goldcorp** (TSX: G)(NYSE: GG), has made steady improvements to its operations, which have seen it reduce its all-in-sustaining-costs per ounce produced to well under \$1,000 per ounce.

For the first quarter of 2014, all-in-sustaining-costs dropped a solid 26% compared to the same quarter in 2013 to \$840 per ounce, which is only marginally higher than Barrick's. This highlights the healthy profit margin Goldcorp is able to generate per ounce of gold mined, leaving it well-positioned to cash in on the current gold rally and expected firmer prices for the foreseeable future.

While being attractively priced, it does appear somewhat more expensive than Barrick, with an enterprise value of nine times EBITDA and equal to \$366 per ounce of gold reserves. However, with a cost management program in place and lower all-in-sustaining-costs, it offers investors a solid opportunity to cash in on higher gold prices.

### **This gold miner is among the most attractively priced among its peers**

Fellow Canadian miner **Kinross Gold** ([TSX: K](#))([NYSE: KGC](#)), while having significantly higher all-in-sustaining-costs of \$1000 per ounce of gold mined, is trading with some particularly attractive valuation multiples.

The company is one of the most attractively priced in the sector, and I expect its financial performance to improve significantly despite the higher all in-sustaining-costs per ounce, with firmer gold prices allowing it to generate a healthy margin per ounce produced.

Although gold miners have been out of favour for some time among investors, it is clear that there is a recovery underway in the industry, with firmer gold prices and lower operating costs allowing miners to generate healthy margins. As a result, now is the time for investors to consider making a bet on the industry and the solid returns these three miners can generate in this operating environment.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. NYSE:KGC (Kinross Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:K (Kinross Gold Corporation)

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## **Date**

2025/07/07

## **Date Created**

2014/07/09

## **Author**

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