# Barrick Gold Corporation vs. Goldcorp Inc.: Which Should You Buy?

## Description

So far in 2014, many hedge fund managers from John Paulson to George Soros have made bets on gold. While hedge fund holdings should be taken with a grain of salt — SEC regulation only requires them to disclose long positions — it is always interesting to see where the smart money is heading.



And if it's going into gold, which should you invest in: **Barrick Gold Corporation** (TSX: ABX)(NYSE: ABX) or **Goldcorp Inc.** (TSX: G)(NYSE: GG)?

Below are three criteria I think are necessary to analyse before making a decision.

**Historical performance**

The market may be forward-looking, but that does not mean investors should completely disregard past performance especially in an industry driven by supply and demand such as gold mining. Indeed, a rigorous look at the way management operated in a full cycle can shed light on which company is operating with shareholders in mind.

Back in 2011, when an ounce of gold was selling for more than $1,600, Barrick Gold was talking about expansion programs left and right. Never mind the increase in cash cost per ounce on the newly acquired mines, because in management's mind, the rally was not over and gold was destined to go ever higher. In retrospect, this strategy backfired immensely on the company, culminating in a massive writedown of $8.7 billion in 2013.

Meanwhile, Goldcorp was more disciplined with its investments during those years. Profitability seemed more important to management than top-line growth. The result was a much less dramatic writedown of only $1.96 billion in 2013

**Balance sheet strength**

The balance sheet is a snapshot of the company's health at a certain point in time. For investors, it allows us to evaluate the strength of the company going forward. For gold miners, net debt — that is, all debt minus cash and cash equivalents — is an important metric to follow because it tells us how resilient the company is during periods of a market downturn.

As of the last quarter, Barrick Gold had $10 billion in net debt despite all the assets the company has sold since 2012. Goldcorp, on the other hand, had only $2 billion of net debt.

It is easy to see which of the two is the stronger company going forward.

**Valuation**

As of last Friday, Goldcorp was selling at 42 times its current earnings while Barrick Gold was selling at 34 times. On an absolute basis, neither is cheap so why bother investing?

Personally, I prefer to look at the price-to-book ratio when evaluating gold miners. Since so much of the value of these companies lies in the assets that they own rather than on the product that they sell — it is hard to differentiate an ounce of gold from another — I find that evaluating them on their assets makes more sense. Price-to-book ratio as of the last quarter was 1.04 for Goldcorp and 1.45 for Barrick Gold. In this case, Goldcorp is again the better company.

**The clear winner: Goldcorp**

Judging by its historical performance, balance sheet, and valuation, it is obvious that Goldcorp is a better-run company and that it is better positioned to profit from an eventual rise in gold prices.



That being said, investing in gold miners is risky and anyone interested should avoid devoting a substantial portion of their portfolio to that sector.

**CATEGORY**

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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