Why Billionaire Eric Sprott Owns Goldcorp Inc. Shares

Description

In a recent interview, billionaire Eric Sprott gave a very compelling case for investing in gold. He pointed out that the Ebola virus may not only cause economic panics but also disrupt supply from West Africa. Demand from China has skyrocketed, doubling since 2011. And meanwhile, miners are cutting back on exploration and other investment spending — eventually that could put a serious squeeze on supply.

So that leaves the all-important question: What's the best way to bet on the price of gold? Well, Mr. Sprott cited two criteria that he screens for, and one miner in particular does very well on both of those measures.

On that note, below are the two big reasons to buy **Goldcorp Inc.** (TSX: G)(NYSE: GG).

1. Production growth

Mr. Sprott said that he screens gold miners for revenue growth, but what he really cares about is production growth. After all, if a miner's production is shrinking, then it could fare poorly even if the gold price rises.

Nowadays, many miners are cutting production in the wake of falling gold prices. But Goldcorp is plowing ahead. For 2014, the company plans to produce roughly 3 million ounces of gold, up from 2.67 million last year. The picture also looks good longer term, since Goldcorp is actually increasing its exploration expenditures by more than 20%.

Compare these figures with a company like **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX). The world's largest gold producer is cutting production by roughly 10%-15% this year, and its exploration budget is being cut in half. So even if the gold price ends up rising, Barrick may end up getting left behind.

2. A safe balance sheet

This is something we should be looking for in any sector but especially mining. After all, mining requires heavy investment, and commodity prices can fluctuate wildly. So if a miner doesn't have a good enough balance sheet, then it may have trouble surviving when times get tough. The past couple of years have offered plenty of examples.

Goldcorp has one of the cleanest balance sheets in the industry, which is a tremendous advantage over its peers. As of June 30th, net debt stood at about $2.3 billion, a very small number for a company this size. In fact, Goldcorp's debt-to-equity ratio is a measly 0.13.

This means Goldcorp has tremendous flexibility. It can ramp up capital spending if it makes a new discovery. Or it can bid on another company if it finds a bargain. Or it can buy other mines.

Contrast this again with Barrick. The company has over $10 billion in net debt, resulting in a debt-to-equity ratio of 0.98. Clearly, there's less flexibility for this company.

Worth the price

Remarkably, Goldcorp is valued more highly by the market than Barrick, even though Barrick's production is roughly double. But given Goldcorp's production growth and lack of debt, this is a price worth paying.

So Goldcorp is a great stock, but we have another that might be even better. It's revealed in the free report below.

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1. NYSE:B (Barrick Mining)
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