Is There Any Upside in Canada’s Troubled Gold Miners?

Description

Once again, the gold rout is on. The metal has now sunk below $1,150 per ounce (as of this writing), after reaching nearly $1,900 just three years ago. This is having a serious impact on the miners. In fact, Bloomberg is reporting that some Canadian miners could face credit downgrades if the metal falls below $1,100.

Investors are clearly scared at this point. And usually, that is a great opportunity to pick up some bargains. Below we examine the opportunity with Canada’s most troubled miners.

Barrick

Barrick Gold Corp. (TSX: ABX)(NYSE: ABX) is truly the poster child for what’s gone wrong with gold miners. A failed acquisition and a botched project left the company saddled with debt, and falling gold prices have made that debt a formidable burden. Along the way, its shares have badly trailed both the index and the gold price.

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But there are a couple of bright spots. For one, Barrick has been successful at cutting expenses, with all-in costs per ounce falling by 25% so far this year. The company also seems more disciplined when it comes to investment spending – roughly 50% of the 2014 exploration budget is devoted to Nevada, a geography where Barrick has lots of history. And while the company’s debt burden is massive, the vast majority is not due until 2019.

That being said, there are still some big question marks surrounding this company. Your best bet is to wait and see.

Kinross

Kinross Gold Corporation (TSX: K)(NYSE: KGC) has had problems very similar to Barrick’s: a failed acquisition in Africa (Red Back Mining) and a failed project in South America (Fruta Del Norte). Over the past three years, its shares have declined by 83%, even worse than Barrick.

But Kinross also shares some of Barrick’s bright spots. The company has cut costs (all-in costs per ounce are down by 19% through two quarters this year), and seems to be more focused. Better yet, its balance sheet isn’t as bad as Barrick’s.

Still, Kinross is arguably even more of a gamble than Barrick. This is because nearly 30% of Kinross’s production comes from Russia, and geopolitical tensions could come back to haunt the company. Once again, this stock is too much of a gamble.

IAMGOLD

The shares of **IAMGOLD Corp** (TSX: IMG)(NYSE: IAG) have performed even worse than Barrick and Kinross. Over the past three years, its shares are down by more than 90%. Is there any hope left for the company?

IAMGOLD has a few issues that are unique to this company. For one, it is higher-cost than Barrick and Kinross – so far this year, its all-in sustaining costs at gold mines came in at $1,165 per ounce, higher than the current gold price. Secondly, roughly 40% of production comes from Burkina Faso. This creates many worries, from the Ebola virus to recent unrest in the capital.

But there are reasons to like this stock too. For one, its balance sheet is set to be rock solid, after selling a non-core niobium mine for $530 million. Secondly, the Burkina Faso mine continues to operate uninterrupted. Finally, the company trades for less than $1,000 per ounce of production, far cheaper than its peers.

So if you're looking for a lottery ticket, IAMGOLD might be the answer. You'll need the gold price to rebound, but if it does, big gains could lie ahead. That being said, the company shouldn't take up a big chunk of your portfolio.

Rather, your portfolio should contain names like the ones listed in the free report below.

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2. NYSE:IAG (IAMGOLD Corporation)
3. NYSE:KGC (Kinross Gold Corporation)
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5. TSX:IMG (IAMGOLD Corporation)
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Date
2025/08/16
Date Created
2014/11/05
Author
bensinclair

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