



Could Yamana Gold Inc. or Goldcorp Inc. Double?

Description

The past three years have not been kind to gold miners or their investors, and **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AU](#)) is a perfect example. Over this time, its shares have fallen by more than 75%, and now trade below \$4. In November 2011, the stock at one point eclipsed \$20.

The news hasn't been quite as bad for **Goldcorp Inc.** (TSX: G)(NYSE: GG). Goldcorp is known as the best-in-class performer, and hasn't been hampered by a poor balance sheet, so the last three years have been less punishing. Over this time, its shares have dropped by 60%.

So at this point, could either of the companies' shares see major gains? Below we take a look at each.

Yamana: A roll of the dice

Yamana's problems go beyond the sinking gold price. The company has faced numerous operational problems, especially in Brazil, and has had to lower guidance a few times over the past two years. The latest quarter, which included nearly \$700 million of impairments, was the last straw for many investors.

But there are some positive aspects to the company too. Yamana has a wonderful growth profile ahead of it, and capital expenditures should decrease in the years ahead too.

When looking at the company's production, costs, and debt, the gold price would have to reach roughly \$1,450 for Yamana's shares to double. This assumes production and costs stay constant, and that a company should be valued at 10 times pre-tax earnings. If this growth profile comes to fruition, that's even more upside.

So this is a bit of a risky play, but there is a lot of reward if the gold price rebounds.

Goldcorp: The safer bet

As mentioned, Goldcorp has been the best-in-class performer in the gold mining industry. Its production has been growing, it has met expectations, and its balance sheet is rock solid.

Unfortunately, this all makes its shares more expensive. To illustrate, if production and costs were to stay constant, the gold price would have to climb close to \$2,000 for Goldcorp's shares to double. The no-growth assumption (as well as the 10x multiple) is overly conservative, but this does show how popular the company's shares are.

The verdict

In this industry, there are many companies that could see explosive returns, if only the gold price rebounds. These names are of course extremely risky. But if you're looking to spice up your portfolio, and you believe in the price of gold, then these names can be held in small quantities. Of course, if you're looking for something a little safer, then Goldcorp is the better option.

That being said, there are other companies you should consider instead of these two. Five are detailed in the free report below.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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