



Why You Should Pay Up for Goldcorp Inc. Instead of Buying Yamana Gold Inc.

Description

For a long time, **Goldcorp Inc.** (TSX:G)(NYSE:GG) has looked like a pretty expensive stock. And that remains true today. To illustrate, the company is valued at about US\$7,500 per ounce of gold production.

Meanwhile, shares of **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) shares have been absolutely hammered over the past year, and today must be looking pretty cheap. They're certainly trading at a discount to Goldcorp, at less than US\$4,000 per ounce of production.

So does that mean you should sell your Goldcorp shares and buy Yamana stock? Well, not so fast. Below we show you three reasons to pay up for Goldcorp.

1. A better balance sheet

In today's gold price environment, where producers are generally struggling, it helps to have a solid balance sheet. And Goldcorp clearly wins in this department. To illustrate, Goldcorp has only US\$2.6 billion in net debt, not much for a company worth US\$18.6 billion.

Meanwhile, Yamana's net debt of nearly US\$2 billion is over half the company's market value. As a result, the company has far less flexibility. And this came to light just last month, when the company raised \$260 million in equity.

2. The right kind of growth

Goldcorp's shares trade at a premium mainly because management is so well respected. And this is well-deserved — the company has a consistent track record of growing production while maintaining the strong balance sheet seen above.

Yamana has taken a different approach. Its Brazilian mines are nearing the end of their life, and have been facing numerous problems. Growth clearly needed to come from elsewhere. So what did the company do? It teamed up with another producer to buy Osisko Mining for \$3.9 billion. This price was described by Osisko's CEO as "the best outcome we can possibly come to", and allowed Yamana to

beat Goldcorp in a bidding war.

When that deal was announced, Yamana was trading at close to \$10 per share. Unfortunately, the deal forced the company to raise substantial debt. This debt eventually caught up with the company, forcing the equity raise last month. And when Yamana raised equity, its shares were trading at about \$5 per share.

Meanwhile, Goldcorp didn't overpay, but rather regrouped. And last month, it bought **Probe Mines Ltd.** ([TSXV:PRB](#)). Not surprisingly, Yamana did not come forward with a competing bid.

3. Stronger leadership

Goldcorp is not only a much larger company, but also has a better track record. That said, guess which CEO has been paid more over the last three years? The answer is Peter Marrone of Yamana, who made \$32 million from 2011 to 2013, according to the most recent filings. Does this sound fair?

To me, it doesn't sound fair to Goldcorp's CEO nor to Yamana's investors. And it just reinforces the notion that Yamana does not have its shareholders best interests at heart. So is this really what you're looking for if you want to bet on gold?

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1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)
3. TSXV:PRB (Probe Gold)

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