



3 Reasons Why Investors Should Buy Eldorado Gold Corp Over Barrick Gold Corp.

Description

In business, great management will make or break any company, no matter what kind of competitive advantage it enjoys.

This is especially true in the gold sector. Back in the glory years of 2010 and 2011, gold miners everywhere were borrowing all the money they could get their hands on, convinced the gold boom was here to stay. Think of it as a slightly more tempered version of the California gold rush of 1849.

In the massive rush to consolidate, many miners made some really poor acquisitions. **Barrick Gold Corp.** ([TSX:ABX](#))([NYSE:ABX](#)) is probably the poster child of these ill-timed acquisitions. In 2011 Barrick bid \$7.3 billion for Equinox Minerals and beat out competing bids from a Chinese company. Just two years later, Barrick took a \$4.2 billion write-off, primarily due to cost overruns on property acquired in that deal. Barrick also wrote-off Pasuma-Lama during 2013 to the tune of \$8.6 billion.

Meanwhile, **Eldorado Gold Corp** ([TSX:ELD](#))([NYSE:EGO](#)) has avoided most of the same problems that have plagued its larger rivals. But that's not the only reason why you should prefer this mid-cap miner over Barrick. Here are three more reasons.

Low-cost production

In 2011 nobody cared about costs. In 2015 costs are all the mining community can talk about.

At US\$1180 per ounce for the price of gold, many of Canada's miners can only hope to break even. According to a report issued by Dundee Securities, Barrick's costs are about average for the sector, coming in at a little more than \$1,100 per ounce. By taking those massive write-offs a couple of years ago, Barrick has done a reasonable job getting their costs back to reasonable levels.

But they're still not really close to Eldorado's costs. The same report listed Eldorado Gold's costs at less than \$1,000 per ounce, which actually lets it be profitable during this period of lower prices. Eldorado's costs are projected to go up a little, but will still be just over \$1,000 per ounce.

In an environment where the price of gold is weak, it's always best to own low-cost producers.

Great balance sheet

When investing in beaten-up sectors, it's important to pick companies with strong balance sheets.

Think of it this way. If gold continues to head lower, the company with the clean balance sheet can continue to borrow to sustain losses. The only alternative for an already-levered company is bankruptcy.

Barrick Gold owes more than US\$13 billion in debt, with more than US\$1.6 billion worth due before 2019. Compare that to just US\$29 billion in tangible assets, and there isn't a whole lot more stress that balance sheet can take.

In comparison, Eldorado's balance sheet looks fantastic. The company owes just US\$585 million, compared to tangible assets of nearly US\$7 billion. Eldorado also has US\$500 million in cash on hand, and the debt isn't due until 2021. If things really start to look nasty, Eldorado is far better equipped to weather the storm.

Quality, plus cheap

Barrick Gold trades at more than twice its tangible book value, and has negative earnings and free cash flow. Essentially, investors are using Barrick's shares as a proxy to the price of gold and are pricing them accordingly.

Meanwhile, Eldorado looks pretty cheap. Shares trade at a 25% discount to book value, and at 35 times earnings. That's a high P/E ratio, but at least the company isn't losing money. Free cash flow was negative, but that's because of heavy investment in new projects in Greece.

Keep in mind that Eldorado is currently having issues with the Greek government on its Skouries Project. The government has revoked the approval needed to complete the project. Management is still continuing work there and remains optimistic that an agreement can be made, but it's a risk nonetheless.

Still, Eldorado Gold has a great balance sheet, low-cost production, and some interesting new projects coming down the pipeline. If you're looking for a good stock with exposure to gold's upside, I think it's a pretty solid choice.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:EGO (Eldorado Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:ELD (Eldorado Gold Corporation)

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