



## Should You Buy Goldcorp Inc. Over Barrick Gold Corp.?

### Description

With gold being depressed, contrarian investors are starting to sniff around the sector.

It doesn't really look good for the yellow metal right now. The price is depressed and most investors aren't really holding their breath or waiting for it to recover. The U.S. dollar continues to be strong, which affects the price of gold as well as its reputation. If the world's largest economy is humming, there isn't really much need for a hedge, which has been gold's traditional role.

Gold is usually popular during times of high inflation, which is pretty much the opposite of what we're experiencing now. With the exception of the United States and China, there isn't much worldwide growth. That keeps inflation down, and gold with it.

But just because these short-term factors are working against the precious metal doesn't mean it can't recover. The key for investors is to pick a high-quality producer that has the strength to endure the downturn. Let's take a closer look at two candidates, **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG).

### Balance sheet strength

Any value investor can tell you that the condition of the balance sheet is extremely important during a turnaround situation. You want to choose a company with the ability to borrow if things get really tough.

Goldcorp has a terrific balance sheet. At the end of 2014 the company was sitting on assets of US\$27.8 billion, even after taking a write-off of US\$3 billion on Cerro Negro, its mine in Argentina. Total debt is just US\$3.6 billion, which is offset somewhat by a cash balance of US\$550 million. Goldcorp's balance sheet is well equipped to deal with years of a tepid gold price.

Barrick's balance sheet isn't nearly as pristine. The company has US\$33.9 billion in total assets, but that compares to a debt load of US\$13.1 billion. Barrick keeps taking charges against assets management overpaid for during the last boom, which is steadily worsening the company's debt-to-assets ratio. The only saving grace is its cash hoard, which is US\$2.7 billion.

## Operations

There's one simple test to compare these two companies' operations. Which has the lowest cost of production?

In 2014 Goldcorp reported all-in-sustaining costs (AISC) of US\$949 per ounce, which is one of the lowest in the whole sector. Goldcorp has a reputation of only taking on high-quality projects, and it shows. With gold hovering near US\$1,200 per ounce, Goldcorp is a solid, profitable producer.

Even though Barrick is not known for showing the same kind of discipline as Goldcorp, it still reported a low AISC of US\$864 per ounce in 2014. This number has come at a high cost, since management has spent most of the last three years shutting down higher cost production. Still, the operations as they stand now are pretty solid.

## Growth

It is projected that 2015 will be a better year for Goldcorp than for Barrick.

Goldcorp released its 2015 outlook in January, which called for an increase in production from 2.9 million ounces to between 3.3-3.6 million ounces. Additionally, AISC is expected to drop to between US\$875-950 per ounce. That's a nice outlook.

Meanwhile, Barrick isn't looking quite as attractive. Production is expected to go from 6.25 million ounces in 2014 to between 6.2-6.6 million ounces in 2015. AISC is expected to be about the same, coming in between US\$860-895 per ounce.

Essentially, it boils down to this: Barrick's operations are arguably a little better than Goldcorp's, mostly thanks to its lower costs. But Goldcorp has the better balance sheet, improving costs, and potential production growth of 20% in 2015. Plus, Goldcorp's management is well regarded, while activist investors seem to continually target Barrick's top brass. For those reasons, I prefer Goldcorp.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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