



Is Barrick Gold Corp. or Goldcorp Inc. a Better Bet Today?

Description

As gold prices move back above \$1,200, bullion fans are wading through the bargain bin of precious metals stocks and wondering if they should take the plunge and add a new gold position to their portfolios.

Bargain bin?

Well, that's the whole debate. If gold is headed back to \$1,000, the miners are certainly no bargain. If bullion prices have bottomed, the gold stocks could be in for a big rally.

Let's take a look at **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG) to see if one is a better pick for your portfolio.

Barrick Gold

Investors generally have a negative view of the big miners, but Barrick tends to be despised more than some of its peers.

The sour sentiment isn't without merit—Barrick has been a fantastic destroyer of investor wealth, wasting billions over the years to pursue a bigger-at-all-costs strategy. Huge egos got in the way of sound stewardship and investors paid the price.

The recent battle over executive pay has some pundits saying things haven't really changed, but Barrick's new management team seems to have figured out that quick and nimble is the new mantra.

Head office staff is being cut in half, non-core mines are being sold, and new projects are being carefully evaluated against a return on invested capital hurdle of 15%.

Barrick is also reducing 2015 capital expenditures by \$200 million to help attack its massive debt load. The company finished 2014 with US\$12.8 billion in long-term debt. That's a lot for a company with a market cap of US\$15.5 billion. Less than \$1 billion of the debt is due before 2018, and the company expects to reduce the obligations by \$3 billion before the end of this year.

Production in 2015 is expected to be 6.2-6.6 million ounces at all-in sustaining costs (AISC) of US\$860-895 per ounce.

Barrick is known as a gold producer, but it also has substantial copper operations in Zambia. Last year Barrick said it would consider shutting down its Lumwana mine when the Zambian government decided to increase royalty rates to 20%.

Recent developments suggest the royalty rate will be scaled back to 9% beginning July 1. This is good news for Barrick and its investors because copper prices have rebounded strongly in the past three months.

Goldcorp Inc.

Goldcorp is often cited as the go-to stock in the sector. The company has a strong reputation for capital discipline and boasts one of industry's best balance sheets.

Goldcorp finished 2014 with just US\$3.4 billion in long-term debt, and \$500 million in cash and cash equivalents. The company's market cap is about US\$16.3 billion.

Production in 2014 hit a record 2.87 million ounces and the company just confirmed guidance for 3.3-3.6 million ounces in 2015. AISC this year are expected to be US\$875-950 per ounce.

Goldcorp plans to spend just US\$1.2-1.4 billion in 2015 compared with \$2.2 billion last year. This is good news for investors who are hoping for a boost to the dividend, which already yields more than 3%.

Which should you buy?

Buying any miner right now is a contrarian bet, and you have to be a gold bull to make that call.

Both stocks are trading at reasonable valuations compared with their five-year averages. Barrick's debt load makes it a riskier bet, especially if gold prices remain under pressure for another two or three years. At the same time, its output is roughly double that of Goldcorp, and at a lower AISC. If gold rallies, Barrick has a lot of upside potential.

If you want a safer play with a nice dividend while you wait for better times, go with Goldcorp.

CATEGORY

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1. NYSE:B (Barrick Mining)

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Date

2025/08/04

Date Created

2015/05/13

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