



Is Barrick Gold Corp. or Goldcorp Inc. the Better Buy Today?

Description

In most industries, investors face a very simple choice. On one hand, they can pay up for a quality company. Or they can settle for a worse company, hoping to strike a bargain.

Gold mining is no different. In fact, the disparity between the best and worst companies is wider than in most industries.

But that doesn't make the decision any easier. So below, we look at two companies at the opposite end of the spectrum: **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG). Finally, we attempt to answer the all-important question: which should you buy?

The case for Barrick

The case for Barrick is very simple, and mainly involves one big factor: price. As of this writing, Barrick is valued at roughly US\$3,700 per ounce of production, based on 2015 guidance. By comparison, Goldcorp trades at just over US\$5,000 per ounce of production. Both of these numbers factor in the companies' debt levels at the end of the first quarter.

Can this disparity be explained by differences in cost? Absolutely not. Barrick is guiding for all-in sustaining costs of US\$860-895 per ounce. This compares with US\$875-950 for Goldcorp. So with Barrick, you're paying less per ounce of production, even though its production is more profitable than Goldcorp's.

Detractors will rightly point out that Barrick has a worse track record than Goldcorp. That is true. But Barrick's new leadership has implemented a dramatic strategy shift at the company. Gone are the days of over-aggressive expansion. Instead Barrick has been selling off mines, and is determined to pay down debt. Eventually this could translate into some nice gains for shareholders.

The case for Goldcorp

As mentioned, Goldcorp is far more expensive than Barrick. There are some big reasons for that.

Let's start with the track record. Over the past 15 years, Goldcorp has been very disciplined, allowing the company to benefit from a rising gold price. Consequently its shareholders made 12.7% per year (including dividends); that number for Barrick is actually negative.

And while Barrick's turnaround efforts are noble, its timing couldn't be worse. Thanks to falling gold prices (as well as irresponsible past behaviour by miners), there's currently a buyer's market for gold mines. That's bad news for a seller like Barrick.

But it's great news for Goldcorp, which is able to remain in growth mode, thanks to its strong balance sheet. Tellingly, CEO Chuck Jeannes even said last September that US\$900 gold would be "an opportunity". Such a scenario would cripple Barrick.

The verdict

With Barrick, there's clearly a lot more risk, but there's also more reward if things go right.

So if you're confident that gold prices will rise, but you don't want to risk too much money, Barrick is a great way to make that bet. On the other hand, if you're investing a large chunk of money, and need to control your risk, then Goldcorp is the better option.

Of course you don't have to buy either — there are plenty of solid alternatives in Canada. Below we take a look at five of them.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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

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Author
bensinclair

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