

2 Gold Stocks Worth Checking Out Despite the Bear Market for Bullion

Description

There's still value to be found in the gold sector, despite an extended bear market for bullion, which has seen prices hover around the \$1,200-per-ounce range for months. Speculation that the U.S. Federal Reserve will raise rates for the first time in nearly a decade has weighed on gold prices in 2015. But some gold miners have continued to boost production, despite weaker prices, suggesting a buying opportunity for prudent investors.

Goldcorp Inc.

Goldcorp Inc. (TSX:G)(NYSE:GG) has the qualities investors should be looking for in a gold stock, including free cash flow generation, debt reduction, growing production, and lower capex and operating costs.

"Goldcorp has been, is, or soon will be, doing all of these things," said TD Securities analysts Greg Barnes in a recent client report. "In our view, it is time to put away the rear-view mirror," he added, noting that investors have been too focused on the gold miner's past, particularly its net debt, which Barnes said appears to have peaked in the first quarter of 2015.

Goldcorp has two new mines ramping up, and recently sold its stake in Tahoe Resources, which raised almost \$1 billion. Barnes estimates Goldcorp's net debt-to-EBITDA ratio will fall to roughly 1.15 times by the end of 2016, versus 1.85 times at the end of 2014.

Barnes expects the miner to generate approximately \$1.3 billion in free cash flow over the next three years based on a \$1,300-per-ounce gold price, which he says should be more than enough to fund the company's dividend of about \$500 million. Barnes raised his rating on the stock to action buy list from buy, with a price target of \$29 per share.

Semafo Inc.

With significant exploration success and prudent balance sheet management, **Semafo Inc.** (TSX:SMF) sets an example for other gold producers to aspire to according to Dundee Securities analyst Joseph Fazzini, who recently initiated coverage of the stock with a buy rating.

"Over the years, Semafo has demonstrated its ability to set realistic expectations and deliver on its promises of generating positive free cash flow. We attribute this to low-cost production from its flagship (90%-owned) Mana mine in Burkina Faso," said Fazzini in a research note.

While the flagship Mana mine maintains sizable reserves and resources, Fazzini noted Semafo's recent acquisition of the Natougou project "enhances its future production profile with another Burkina Faso asset hosting potential for robust project economics and significant exploration upside."

According to data compiled by Thomson Reuters, Semafo is covered by 15 equity analysts, with 12 of those giving it a buy rating.

In Q1 Semafo's gold production increased 86% to 65,200 ounces, helping the miner to swing to a net income gain of \$8.2 million, or \$0.03 per share, compared with a net loss of \$12.8 million, or \$0.04 per share, in the same period last year.

While the long-term trend on Goldcorp and Semafo's stock prices is negative, a turnaround could be in the cards for both gold miners, who have continued to boost production and generate free cash flow despite a weak gold price environment. Foolish investors should consider further research on these two stocks.

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1. Investing
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