Is Now the Time to Buy Gold Miners?

Description

Since its high of $1,920 an ounce back in September 2011, the price of gold has almost halved to the current $1,150 per ounce. BMO Capital Markets, however, recently upgraded a slew of miners, stating that "gold-mining companies are far more prepared for lower prices than the markets may perceive."

Notably, BMO pointed out that some precious metals miners are better prepared than others to weather lower prices. Two miners in particular had their ratings upped from "market perform" to "market outperform." Which miners did they upgrade, and is now really the time to buy?

Goldcorp upgraded to outperform with a price target of $22

Goldcorp Inc. (TSX:G)(NYSE:GG) is a senior gold producer with 10 producing mines and various exploration projects in the Americas. When gold prices hit historical highs roughly four years ago, shares of Goldcorp were trading at more than $50. Now, shares trade at about $16 a share, close to where the stock bottomed during the financial crisis.

There are two major factors that make Goldcorp more attractive than its peers: low debt levels and sustainable free cash flow generation.

At the start of the year Goldcorp had $3.8 billion in total debt. Cash levels were roughly $420 million. After the sale of its stake in **Tahoe Resources Inc.**, cash levels are now closer to $1.2 billion. This will cut leverage significantly below historical levels as well as below the average gold-mining peer. The company also has access to a $1.9 billion revolving credit facility.

Free cash flow after dividend payments is also expected to turn positive next year, helping the company sustain its current project pipeline and continue to deliver faster than almost every competitor. In an environment with volatile metals prices, investors should continue to place a premium on financially stable companies like Goldcorp.

Barrick Gold upgraded to outperform with a price target of $16

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX), meanwhile, is more highly levered, with its recent financials deteriorating due to lower cash flows and an increase in its debt-to-equity ratio. Barrick has a staggering debt level of $13 billion, well exceeding its cash position of $2.2 billion and operating cash flow of $2 billion.

Still, there are plenty of reasons to believe in a turnaround.

Firstly, the company is getting serious about cutting unnecessary costs. Barrick recently announced the implementation of a lean and decentralized model that is expected to reduce operating expenses by up to $230 million this year alone. For a company that made less than $60 million in profits last quarter, this is a substantial figure.

Barrick also is planning to switch its power plant at its Pueblo Viejo mine over to liquefied natural gas. This should help reduce operating costs as liquefied natural gas is substantially less expensive than the current oil fuel source.

Secondly, the company anticipates reducing debt levels by at least $3 billion by the end of 2015 through a combination of cost cutting and non-core asset sales. For example, last month Barrick announced a $550 million sale of its Cowal mine in Australia. The company also announced the sale of a 50% stake in the Porgera joint venture in Papua New Guinea. These moves alone will help achieve a debt reduction of over $1 billion.

Both companies are set to weather the storm

While most investors are focusing on lower metals prices hurting miners, there are clearly other tailwinds that should help both Goldcorp and Barrick actually increase profitability. With a slew of options to reduce debt and cut costs, these companies are better positioned than most realize.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/04
Date Created
2015/07/15
Author
rvanzo