Why Goldcorp Inc. Is a Better Buy Than Barrick Gold Corp. and Yamana Gold Inc.

Description

It's official: the gold mining sector is getting absolutely hammered. On Wednesday, the price of gold once again fell below US$1,100 per ounce. This is especially worrying since so many gold miners were struggling even when prices were much higher.

According to **JPMorgan** portfolio manager James Sutton, "the whole industry is on a bit of a knife-edge." But perhaps the situation was best summed up by **Rangold** CEO Mark Bristow, who said that "another $50 off the gold price and this industry is toast." And here's the scary part: Mr. Bristow's comments came when gold was trading for US$1,150 per ounce.

So we won't have to wait very long to test Mr. Bristow's hypothesis, and this should be very scary for any investor in gold stocks. At the very least, a big gap will form between the winners and losers. Thus it's more important than ever to pick the right stocks. On that note, below we look at two gold miners you should certainly avoid, and one you should consider buying instead.

Two stocks to avoid: Barrick and Yamana

Barrick Gold Corp (TSX:ABX)(NYSE:ABX) and **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) have a lot in common. Both companies have been very well-respected in years past (Yamana more recently than Barrick), but have since fallen on hard times. Their worst problems have come in South America, and each have struggled to deal with low gold prices. Adding insult to injury, both firms have enraged their shareholders with generous compensation practices.

Today, both companies have been divesting non-core assets to clean up their balance sheets. Yamana has taken a creative approach, one that involves creating a subsidiary before auctioning it off to the public.

But as gold prices fall, it gets harder to sell these unwanted assets, which is bad news for Barrick and Yamana. This is partly why their share prices have reacted so negatively to the fall in gold prices – both stocks are down by roughly 30% in just the last month. That being the case, there's still a lot more room for them to fall.

One stock to buy instead

Goldcorp Inc. (TSX:G)(NYSE:GG) has long-been one of the most respected companies in the industry, and for good reason. While other companies were making big acquisitions and spending billions on failed projects, Goldcorp has been much more disciplined. As a result, its balance sheet is absolutely pristine, with only US$3.3 billion in net debt. That's less than a third of the company's market value.

Goldcorp has lost some of its shine over the past 12 months, mainly due to some operational problems in Mexico. But this is still a very well-positioned company, and should have no trouble surviving at these gold prices. So even if Mr. Bristow's prediction comes true, Goldcorp won't be caught in the mix.

It’s easily the best gold company to own in this environment.

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