



## Should You Buy Agnico Eagle Mines Ltd. or Goldcorp Inc.?

### Description

With gold prices down 15% this year, most gold miners have been struggling. The stock of **Agnico Eagle Mines Ltd** ([TSX:AEM](#))([NYSE:AEM](#)) is down 44% over the past year and fellow miner **Goldcorp Inc.** (TSX:G)(NYSE:GG) is down a tremendous 54%.

With the industry down significantly more than the price of the underlying metal however, there should be some opportunities for bottom-picking. As two of the larger miners in Canada, should you prefer Agnico Eagle Mines or Goldcorp?

#### **Agnico Eagle Mines wins on production costs**

One of the biggest factors affecting profitability involves shifts in production costs. One measure to consider is all-in sustaining cost, or AISC, which is a widely used measurement in the precious metals industry.

While Goldcorp is guiding for a 2015 AISC of \$913 an ounce, Agnico Eagle Mines is slightly better positioned at only \$890 an ounce. In times of potential downward pressure on bullion prices, those who conserve resources are more likely to stay afloat. Lower costs helped Agnico Eagle Mines post an operating cash flow to sales ratio of 35% in 2014 compare to only 29% for Goldcorp.

#### **Taking a different approach to spending**

Agnico Eagle Mines plans to allocate only \$480 million this year on capital expenditures. Goldcorp meanwhile plans to spend \$1.3 billion. The lower spending budget plays to Agnico Eagle Mines' favor by not taking additional debt and easing its cash flow.

Still, Agnico Eagle Mines has more budgetary pressures than Goldcorp. Agnico Eagle Mines has a debt-to-equity ratio of 0.31 times while Goldcorp has a ratio of just 0.23 times. With less leverage, Goldcorp can focus on reinvesting in its business.

#### **Goldcorp has half the valuation**

On a price-to-book basis, Goldcorp trades at 0.7 times while Agnico Eagle Mines trades for roughly 1.4 times.

While this may have to do with Goldcorp's massive losses in the current gold environment (compared to Agnico Eagle Mines posting a small profit), Goldcorp was still able to record massive profits when gold was higher. For example, from 2010-2012, Goldcorp posted annual profits in excess of \$1.5 billion while Agnico Eagle Mines barely broke even over the same period.

If you anticipate gold prices rebounding, Goldcorp has the potential to swing back to major profitability.

### **What's your prediction for gold prices?**

Choosing between the two is simple: what will happen to the price of gold? In the current environment, Agnico Eagle Mines is showing a superior ability to control production costs and reign in capital expenditure spending. With a rock-bottom valuation however, Goldcorp is primed to explode should gold prices shoot higher.

If you anticipate gold rebounding, stick with Goldcorp. If your forecast is a bit less rosy, Agnico Eagle Mines seems like the safer bet.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)

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