



## What Is a Safer Turnaround Play: Goldcorp Inc. or Barrick Gold Corp.?

### Description

**Goldcorp Inc.** (TSX:G)(NYSE:GG) is in its fourth year of decline. From its high of \$54 per share in 2011, it has gone down to its current price of under \$18 per share, a drop of more than 67%.

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) is in a similar boat and is in its fourth year of decline. From its high of \$53 per share in 2011, it has gone down to \$9, an 83% decline.

With an initial look, it seems Goldcorp is a more resilient investment. Still, both miners' business performance is dependent on the prices of the precious metals they mine, so it only makes sense to consider an investment in them when they're priced significantly below their intrinsic values. They're both priced at cheap valuations. Which should you buy today for a turnaround?

Let's compare them.

### Which has the cheaper valuation?

The book value is the value of assets shareholders would theoretically receive if the company were liquidated.

Goldcorp's book value is \$27.50. So, at under \$18 per share, it has a price-to-book ratio (P/B) of about 0.6. This is the cheapest it has been in a decade. In the last recession in 2008-09, it traded at a P/B of 1.5 and 1.9, respectively. So, it should be able to trade at a P/B of 1.0 again, implying an upside of 53% excluding dividends.

Barrick's book value is \$11.5. So, at \$9 per share, it has a P/B under 0.8. This is the cheapest it has been in the past 10 years. If it trades at a P/B of 1.0 again, that would imply a 28% upside excluding dividends.

One trend of concern for Barrick is that its book value per share has been in a decreasing trend from 2011's \$22.8 to the present \$11.5, while in the same period, Goldcorp's book value increased from \$26.3 to \$27.5.

Given Goldcorp's lower valuation and book value stability, Goldcorp wins in this category.

### **Ability to survive: credit rating, debt levels, and interest coverage ratio**

The interest coverage ratio indicates whether a company can pay off the interest on its loans in a timely manner. Generally, an interest coverage ratio below 1.5 is a warning sign that the company could default. So, the higher the ratio, the better.

Goldcorp has an S&P credit rating of BBB+, debt-to-cap of 15%, and interest coverage of -99.3. On the other hand, Barrick has an S&P credit rating of BBB-, debt-to-cap of 49%, and interest coverage of -2.8.

Goldcorp has a higher credit rating and lower debt levels, so it beats Barrick, even though Barrick's interest coverage is less pessimistic than Goldcorp's. Due to overall lower debt levels, I believe Goldcorp is more able to survive a prolonged low precious metal-price environment.

### **Profitability: operating margin, net income, earnings per share, and free cash flow**

Goldcorp's trailing 12-month (TTM) metrics are as follows: the operating margin is -71.9%, the net income is -US\$2.1 billion, the earnings per share (EPS) is -US\$2.63, and free cash flow (FCF) is -US\$605 million.

Barrick's TTM metrics are as follows: the operating margin is 23.4%, the net income is -US\$2.9 billion, the EPS is -US\$2.52, and FCF is -US\$303 million.

Both companies aren't profitable in these environments, but comparatively from 2005 to 2014, Barrick had four years of negative earnings while Goldcorp had two. So, based on history, Goldcorp should be able to come out with positive earnings sooner than Barrick given the precious metal prices start turning higher again. Unfortunately, we don't see any signs of this yet.

### **In conclusion**

Both companies are speculative plays because their business performance are based on commodity prices. In this environment of low precious metal prices, I think Goldcorp has a better chance to survive and serves as a safer turnaround play.

Foolish investors should only consider buying these types of stocks with the intention to hold for the next three to five years, and they should only make up a small percentage of your portfolio as a speculative play.

The cautious investor should wait till gold prices actually show signs of turning around before buying.

### **CATEGORY**

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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