# What Is a Safer Turnaround Play: Yamana Gold Inc. or Eldorado Gold Corp.?

## Description

**Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) is in its third year of decline. From its high of $20 per share in 2012, it has gone down to its current price of close to $2 per share, an 88% drop. **Eldorado Gold Corp.** (TSX:ELD)(NYSE:EGO) is in a similar boat, and is in its fourth year of decline. From its high of $21 per share in 2011, it has gone down to close to $4, an 80% decline.



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 one 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.

Yamana's book value is $9.50. So, at about $2 per share, it has a price-to-book ratio (P/B) of less than 0.3. This is the cheapest it has been in a decade. Between 2009 and 2012 it traded between a P/B of 1.2 and 1.7. So, it should be able to trade at a P/B of 1.0 again, implying an upside of 303% excluding dividends.

Eldorado's book value is $9.30. So, at about $4.23 per share, it has a P/B under 0.5. This is the cheapest it has been in the past 10 years. During that period, it traded between the outrageous P/B of 3 to 6.

Logically, it should be able to trade at a P/B of 1.0 again, which would imply a 120% upside excluding dividends.

Yamana has the cheaper valuation and implies less downside, but only if it survives. Which of Yamana and Eldorado has a better chance of survival?

**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.

Yamana has an S&P credit rating of BB+, debt-to-cap of 21%, and interest coverage of -14.6. On the other hand, Eldorado has an S&P credit rating of BB, debt-to-cap of 10%, and interest coverage of 10.9.

Yamana has a slightly higher credit rating, but Eldorado has a higher interest coverage ratio and less debt. So, Eldorado seems to be more able to survive a prolonged low precious metal-price environment.

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

Yamana's trailing 12-month (TTM) metrics are as follows: the operating margin is -41.2%, the net income is -U$1.5 billion, the earnings per share (EPS) is -$1.68, and free cash flow (FCF) is -U$47 million.



Eldorado's TTM metrics are as follows: the operating margin is -7.7%, the net income is -U$173 million, the EPS is -U$0.64, and FCF of -U$109 million.

Both companies aren't profitable in these environments, but comparatively from 2005 to 2014 Yamana had four years of negative earnings while Eldorado had two.

So, I'd call Eldorado the winner in this category.

**In conclusion**

Both companies are speculative plays because their business performance is based on commodity prices. In this environment of low precious metal prices, I think Eldorado has a better chance for survival and serves as a safer turnaround play. I would only buy these with the intention to hold for the next three to five years. Also, each should not exceed more than 1% of your portfolio.

**CATEGORY**

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

**TICKERS GLOBAL**

1. NYSE:AUY (Yamana Gold)
2. NYSE:EGO (Eldorado Gold Corporation)
3. TSX:ELD (Eldorado Gold Corporation)

4. TSX:YRI (Yamana Gold)

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