

Which of These 5 Precious Metals Miners Is the Best Turnaround Opportunity?

Description

These mining companies are getting cheap after declining in price for multiple years. Before a miner can turn around, it must survive in the meantime. So, I first discuss which has the best chance of survival before talking about the valuations of the best-chance survivors.

Here are the companies: **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)), **Eldorado Gold Corp** ([TSX:ELD](#))([NYSE:EGO](#)), **Goldcorp Inc.** (TSX:G)(NYSE:GG), **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX), and **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW).

Yamana Gold and Eldorado Gold are small (with a market cap around \$3 billion), low-cost gold miners. Goldcorp and Barrick Gold are bigger gold miners. Silver Wheaton is special because it is a precious metals streaming company, so it doesn't operate any mines.

Which has the best chance of survival?

When it comes to commodity prices at multi-year lows, whether it be copper, zinc, gold, or silver, the ones with the best chance of survival are the low-cost operators.

There's no argument that the lowest-cost company is Silver Wheaton. As mentioned, it doesn't operate any mines, but has agreements to buy silver and gold for low fixed costs from multiple mines.

Eldorado Gold is a low-cost producer, and in 2014 it had an all-in sustaining cost of U\$780 per ounce, which is the lowest among Yamana Gold, Goldcorp, and Barrick Gold.

Low debt is also another survival factor.

	Yamana	Eldorado	Goldcorp	Barrick	Silver Wheaton
Debt-to-capital	21%	10%	15%	48%	15%
Interest Coverage	-15	11	-99	-3	88

Once again, Eldorado Gold and Silver Wheaton take the lead, although Goldcorp is a better choice than Barrick in regards to debt levels.

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. Once again, Silver Wheaton and Eldorado come out on top.

Valuations

Since Silver Wheaton and Eldorado Gold are coming out as the strongest survivors, I will discuss the valuations on them. I'm going to throw in Goldcorp as well because it has the stronger balance sheet

with an investable credit rating of BBB+ among the big gold miners.

Eldorado Silver Wheaton Goldcorp			
price-to-book (P/B)	0.5	1.2	0.6
price-to-cash-flow	8.5	11.4	10.4

All three are at or near their decade-low valuation. However, the market rates Silver Wheaton as the strongest candidate for precious metals exposure because even today, after a 40% decline from its 52-week high of \$29, it is still priced at a P/B of 1.2.

If you're looking to be adventurous and get more upside potential, Eldorado Gold is your better bet for a smaller gold producer, while Goldcorp is your better bet for a bigger gold producer.

Conclusion

These stock's prices will not skyrocket unless the commodity prices do. So, cautious investors should wait for gold or silver prices to show signs of recovery before buying.

Still, if you're looking for precious metals exposure, Silver Wheaton is your best ticket with minimal risk and significant capital gains once gold and silver prices rise again.

If you're looking for the best value, Eldorado and Goldcorp are the safer investments compared with Yamana and Barrick, because they are priced at discounts to their book values.

Lastly, it's typically safer to dollar-cost average in to positions than buying a lump sum.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. NYSE:EGO (Eldorado Gold Corporation)
4. TSX:ABX (Barrick Mining)
5. TSX:ELD (Eldorado Gold Corporation)
6. TSX:WPM (Wheaton Precious Metals Corp.)
7. TSX:YRI (Yamana Gold)

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