



Barrick Gold Corp. or Goldcorp Inc.: Which Is the Safer Turnaround Stock?

Description

Usually, turnaround investments aren't the highest-quality kind of companies, but they could return substantial capital gains. Gold miners are at multi-year lows, including the big miners such as **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG).

Here's the big picture:

- From a high of \$54 in 2011, Barrick Gold has gone down 84% to \$8.50
- From a high of \$54 in 2011, Goldcorp has gone down 69% to under \$17
- In the same period, the price of gold has gone down roughly 41%

With an initial look, one might think it's advantageous to bet on Barrick Gold because it has gone down more than Goldcorp. However, price movement is not the only metric to analyze when buying a stock. Which of Barrick Gold and Goldcorp is truly the better turnaround opportunity?

Which is cheaper?

We already know Barrick Gold is cheaper based on price. But digging deeper and looking at the price-to-book ratio (P/B), Goldcorp is actually priced at a lower valuation with a P/B of 0.6, while Barrick Gold has a P/B of 0.8. So, the P/B implies Goldcorp is cheaper.

Still, the valuation only tells one part of the story. Let's compare the two gold miners in multiple facets.

Comparing the two miners

Yield: Both companies have cut their dividends at least once from 2011 to the present. Still, the higher the yield, the more income shareholders receive today. Barrick Gold yields 1.3%, while Goldcorp yields 1.9%. When buying a piece of the gold mines, investors shouldn't be doing so for the income because the dividends from commodity stocks aren't reliable.

Earnings: Both miners are experiencing negative earnings.

Payout ratio: Because both miners have negative earnings, the payout ratio is not applicable here.

Quality: Barrick Gold has an S&P credit rating of BBB-, while Goldcorp has a rating of BBB+.

Debt: The more debt a company has, the more likely it is to default. Barrick Gold's debt-to-cap ratio is 48%, while Goldcorp's is 15%.

Valuation: As mentioned before, Goldcorp is cheaper than Barrick Gold based on the P/B.

In conclusion

For the safer turnaround opportunity, it's better to go with Goldcorp. It's cheaper based on the assets it owns in relation to the current share price, it has a stronger balance sheet, and its debt levels are lower, so it's less likely to go bankrupt.

The cautious Foolish investor would wait till there's an evident rebound in the commodity stocks before buying, and only buy turnaround opportunities in a non-registered account in case a write-off is needed.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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