



Should You Buy Barrick Gold Corp. or Goldcorp Inc.?

Description

Once again, there is reason to be pessimistic about the U.S. economy. According to new data, non-farm payrolls rose by only 142,000 in September, and the August figure was revised down to 136,000. That's the slowest rate of job growth in over a year, and is prompting worries that China's slowdown is affecting the American economy. Stock market futures and the U.S. dollar both declined in response.

The bad news has also dampened the prospects of an interest rate increase, which some believed could come this month.

These developments are a big positive for gold, whose price is still stuck well below US\$1,200 per ounce. So, if we see any more bad news, there's certainly plenty of upside for the gold price.

With that in mind, we take a look at Canada's two largest gold companies below, **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG), and try to determine which one you should buy.

The case for Barrick Gold

Barrick has certainly had its troubles in the past, and its balance sheet is still highly levered. But there's one major reason to prefer Barrick over Goldcorp: the price.

When including net debt, Barrick's operations are valued at just under US\$20 billion by the market, or roughly US\$3,000 per ounce of production. Meanwhile, that figure is nearly US\$4,000 for Goldcorp. Furthermore, Barrick is forecasting lower costs for this year than Goldcorp, which means its mines should be more profitable. And we're not even including Barrick's copper division in this calculation.

Barrick has also taken some very meaningful steps this year. Costs have been cut, and so has investment spending. The organization is more streamlined. And, most importantly, the company is well on its way to meeting its US\$3 billion debt-reduction goal. These actions aren't enough to make us forget about past misdeeds, but at least it's a start.

Finally, because Barrick is still so levered, its stock price should be more sensitive to gold prices. So, if

you've only got so much money to invest, but want to make a big bet on gold prices, this is the way to do so.

The case for Goldcorp

Goldcorp may be more expensive, but there are two big reasons for that. One, its balance sheet is not nearly as dangerous. Two, the company has a far better track record.

The strong balance sheet is particularly crucial. Not only does it make the stock less risky, but it also gives the company more flexibility. So, if it wanted to buy a mine, or buy back shares, or develop a new deposit, it can do whatever is most advantageous. Meanwhile, Barrick is, more or less, boxed into a corner.

The verdict

So, which stock should you buy? Well, that primarily depends on how much money you plan to invest.

If you only want to invest a small amount, but still make a reasonably sized bet on gold, Barrick is certainly the answer. On the other hand, if you want to devote a significant portion of your portfolio to gold (which I would not recommend), then you should minimize your risk with Goldcorp.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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