



Which Gold Miner Is a Better Buy for 2016?

Description

Usually, turnaround investments aren't high-quality companies. They could fail in turning around and go bankrupt. However, if they survive, they could return substantial capital gains. Gold miners are at multi-year lows. The big miners include **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 81% to \$10.
- From a high of \$54 in 2011, Goldcorp has gone down 72% to under \$15.
- In the same period the price of gold has gone down roughly 40%.

With an initial look, one might think that Barrick Gold is a better bet 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 by 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 0.5, while Barrick Gold has a P/B of 0.8. So the P/B implies that 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: The dividends for commodity stocks aren't reliable. In fact, both companies have cut their dividends in the last year. Still, the higher the yield, the more income shareholders receive today. Barrick Gold yields 1.1%, while Goldcorp yields 2.1%. However, investors shouldn't invest in these miners for the income.

Earnings: Both miners are experiencing negative earnings. So, dividends are not sustainable by

earnings.

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 45%, while Goldcorp's is 12%.

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 commodity stocks before buying, and only buy turnaround opportunities in a non-registered account in case a write off is needed.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/04

Date Created

2015/12/16

Author

kayng

default watermark