



Gold Miners Under \$5

Description

The world has been brutal to these gold miners. **Eldorado Gold Corp.** ([TSX:ELD](#))([NYSE:EGO](#)) now sits around \$4 per share and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) now sits around \$2.70 per share. They have fallen about 78% in the last five years. Which is a better turnaround investment today?

Usually, turnaround investments aren't very safe. In fact, they could even fail and go bankrupt. However, if they survive, they could return substantial capital gains.

Business overview

Eldorado Gold is a mid-sized, low-cost gold producer. Since the gold price has been falling, the miner's earnings per share have been falling at a double-digit rate since 2012. As a result, its share price has been falling for multiple years.

The story is similar for Yamana Gold. Its earnings and share price have also suffered since 2012.

Which is cheaper?

With an initial look, one might think that Yamana Gold is a better turnaround because its share price is cheaper than Eldorado Gold's. However, price is not the only metric to analyze when buying a stock. Which is truly the better turnaround opportunity?

By digging deeper and looking at the price-to-book ratio (P/B), Yamana Gold is indeed priced at a lower valuation with a P/B of 0.3, while Eldorado Gold has a P/B of 0.4. So, the P/B implies that Yamana Gold is cheaper.

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

Comparing the two miners

Yield: The dividends for gold-mining stocks aren't reliable. In fact, both companies have cut their

dividends since 2013. Still, the higher the yield, the more income shareholders receive today.

Yamana Gold yields 3%, while Eldorado Gold yields 0.5%. Investors shouldn't invest in these miners for the income.

Earnings: Both miners are experiencing negative earnings, but Yamana's earnings per share are more negative at -\$0.75, while Eldorado Gold's is -\$0.55.

So, relatively speaking, Eldorado Gold looks to be a better bet based on earnings. Either way, their dividends aren't sustainable by earnings.

Quality: Yamana Gold has an S&P credit rating of BB+, while Eldorado Gold has a rating of BB. Both look pretty shaky since a minimum rating of BBB- is considered investment grade.

Debt: The more debt a company has, the more likely it is to default. Yamana Gold's debt-to-cap ratio is 21%, while Eldorado Gold's is 10%. Neither have excessive debt levels.

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

In conclusion

Both potential turnaround investments look shaky. However, if they survive, and if the demand for gold grows, they could provide substantial capital gains.

Foolish investors need to decide whether or not these turnaround investments are necessary for their portfolios. If you're going to go for it, you should wait till there's an evident rebound in gold 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:AUY (Yamana Gold)
2. NYSE:EGO (Eldorado Gold Corporation)
3. TSX:ELD (Eldorado Gold Corporation)
4. TSX:YRI (Yamana Gold)

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