



Can Precious Metals Companies Rally Another 30%?

Description

Precious metals companies have been dead money for the past few years. In fact, they were worse than that. We saw **Goldcorp Inc.** (TSX:G)(NYSE:GG) fall from over \$50 in 2011 to \$18 today, and we saw **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) fall from over \$50 to \$15 in the same period.

Even the less-risky precious metals streaming companies suffered. **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) fell from over \$40 to \$18 and **Royal Gold, Inc.** (TSX:RGL)([NASDAQ:RGLD](#)) fell from over \$80 to \$49 in the same period.

However, these companies rallied 30% on average in the last two weeks:

- Goldcorp rallied over 28%
- Barrick Gold rallied over 38%
- Silver Wheaton rallied over 22%
- Royal Gold rallied over 32%

In fact, their prices were bid higher with above-average volumes. For example, Goldcorp's trading volume on Thursday was more than twice its average volume.

Why did they rally?

Precious metals companies are priced cheaply. You won't get results from looking at their price-to-earnings ratios because many still having declining earnings.

However, if you look at their price-to-cash flow ratios, they look cheap:

- Goldcorp is priced at about 7.8 times cash flows, while it has normally traded at 15 times its cash flows in the past few years
- Barrick Gold is priced at about 5.7 times cash flows, while it has normally traded at six times its cash flows in the past few years
- Silver Wheaton is priced at about 12.8 times cash flows, while it has normally traded at 17 times its cash flows in the past few years

- Royal Gold is priced at about 11 times cash flows, while it has normally traded at 25 times its cash flows in the past few years

Which are safe investments?

Between Goldcorp and Barrick Gold, Goldcorp is safer with a higher credit rating. Goldcorp has an S&P credit rating of BBB+, while Barrick Gold's rating is BBB-. Additionally, Goldcorp's cash flows seem to be increasing at a faster rate than Barrick Gold's. One more important point to note is that Goldcorp is priced at a higher valuation than Barrick Gold, so the market is pricing the former with a premium and viewing it as a safer investment.

I think both Silver Wheaton and Royal Gold are pretty safe. They're safer investments than Goldcorp and Barrick Gold because precious metals streaming companies pay low fixed costs for precious metals, but they don't operate any mines.

Conclusion: Is it time for investors to buy?

Based on this fiscal year's estimated cash flows, Goldcorp (at \$18) has more than 100% upside, Silver Wheaton (at \$18.50) has at least 36% upside, and Royal Gold (at \$49.20) has at least 34% upside as of Thursday after the market closed.

Even though these companies could rally another 30%, they have already rallied for two weeks and are approaching overbought territory. So, interested investors should wait for some sort of pullback before buying them as turnaround investments.

This rally could lose steam anytime, so although the upside potential of these companies looks delicious, it's also important to keep the downside potential in mind.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

TICKERS GLOBAL

1. NASDAQ:RGLD (Royal Gold, Inc.)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:WPM (Wheaton Precious Metals Corp.)

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