



## Should You Buy Goldcorp Inc. or Yamana Gold Inc.?

### Description

Gold stocks are off to a great start in 2016, and investors are wondering if it is finally time to add some gold exposure to their portfolios.

Let's take a look at **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) to see if one is a better bet.

#### Goldcorp

Goldcorp used to be the go-to name in the space for investors who wanted a top-quality mining stock, but the company lost some fans in recent years.

Why?

Heavy capital outlays amid a plummeting gold price didn't go down well with the investment community, and pundits thought the company had lost its golden touch.

But it may turn out that management had the timing just right.

Goldcorp put two new mines into commercial production in 2015. Those facilities are ramping up to full output, and that should drive production higher, while reducing all-in sustaining costs (AISC).

The company's AISC in Q3 2015 was US\$848 per ounce, down from US\$1,066 per ounce in the previous year.

Goldcorp delivered free cash flow of US\$243 million in the third quarter, which is a solid result given the challenging market conditions. With capital expenditures falling as the new projects move from development to full production, Goldcorp should kick off even more free cash flow in the coming quarters.

The company's guidance for 2015 output was 3.3-3.6 million gold ounces. Management's comments in the Q3 report indicated the final number would be close to the high end of the target.

Goldcorp finished Q3 2015 with US\$2.5 billion in long-term debt and US\$330 million in cash and short-term investments. The company has a market capitalization of about US\$10.8 billion.

## **Yamana**

Yamana's stock has really taken a hit over the past four years, falling from \$20 per share in late 2012 to the current price of about \$3.

Management is working hard to get the house in order, and the recent rally in gold is bringing contrarian investors back into the name.

The company delivered Q3 2015 AISC of US\$841, which is right in line with its larger peers. Production has been a concern and third-quarter output was about in line with the same period in 2014. Output should improve in the coming years if the miner can get its key projects built.

Yamana is planning to focus its capital on core assets and has put the non-core mines in a separate company called Brio Gold. The original plan was to monetize the non-core assets through a sale, but management now intends to hold the assets until it can extract a higher price. At the moment, that decision looks like a smart one, but investors should keep an eye on the debt load.

Net debt is about US\$1.7 billion and the company has a market capitalization of just US\$2 billion, so there is some balance sheet risk that has to be addressed. Yamana's 2016 gold output is expected to be 1.2-1.3 million ounces.

## **Which should you buy?**

Yamana might get a bigger bounce if gold continues to rally, but it is also a high-risk play and things could get ugly again very quickly if gold reverses course.

Goldcorp's balance sheet is in much better shape and production growth should be steady in the coming years. If you want the safer way to play a rebound in gold, Goldcorp is the better bet.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

1. NYSE:AUY (Yamana Gold)
2. TSX:YRI (Yamana Gold)

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