



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

Description

Gold continues to outshine the rest of the market in 2016, and that is putting a nice tailwind behind the miners.

Let's take a look at **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) to see if one is a better bet right now.

Goldcorp

Goldcorp reported record 2015 production of 3.46 million ounces at all-in sustaining costs (AISC) of US\$894 per ounce. The strong output came as a result of two new mines going into commercial production during the year.

This switch from development to production on the major facilities meant lower capital expenditures in the year, and that helped the company deliver 2015 free cash flow of US\$335 million.

Unfortunately, that's where the good news ends.

Goldcorp just slashed its dividend for the second time in less than a year and reduced its proven and probable reserves by 18%. The company reset the calculation based on a long-term gold price of US\$1,100 per ounce and conservative foreign exchange rate assumptions.

The miner is moving toward a model where it focuses more on quality rather than quantity of production. Annual production guidance for the next three years is 2.8-3.1 million ounces at expected AISC of US\$850-925 per ounce, which puts the cost structure higher than some of its peers.

Goldcorp finished Q4 2015 with long-term debt of US\$2.5 billion and US\$326 million in cash and cash equivalents, so the balance sheet is in good shape. The company has a market capitalization of US\$13.5 billion.

Barrick

Barrick spent most of 2015 in turnaround mode, and that trend continues.

The company reduced its debt by US\$3 billion last year and expects to trim another US\$2 billion in 2016. That's good news for shareholders because the company was at risk of being crushed by the massive weight on its balance sheet.

Barrick has also worked hard at reducing costs.

The company produced 6.12 million ounces of gold in 2015 at AISC of US\$831 per ounce. The fourth quarter was particularly impressive with production of 1.62 million ounces at AISC of just US\$733 per ounce. Lower operating costs and reduced capital expenditures helped the business generate US\$344 million in Q4 free cash flow.

Going forward, production is expected to fall due to the sale of some non-core assets.

Production guidance for 2016 is 5-5.5 million ounces at AISC of US\$775-825 per ounce. Output and costs are projected to fall again in 2017, while 2018 is expected to see output of 4.6-5.1 million ounces at AISC below US\$700 per ounce.

Barrick finished 2015 with US\$10 billion in long-term debt on the balance sheet and US\$2.5 billion in consolidated cash. Less than US\$250 million of the debt is due before 2018.

Barrick has a market capitalization of US\$17 billion.

Which should you buy?

Both stocks will continue to rise if gold can hold or extend its gains. Goldcorp has a stronger balance sheet, so it is still a lower-risk bet, but the current operational challenges make the stock less appealing.

At this point, Barrick is probably the better way to go. The company has a lower cost structure than Goldcorp and offers more upside torque if gold prices continue to rise.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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