



Why Barrick Gold Corp. Is a Better Long-Term Play Than Goldcorp Inc.

Description

With gold prices on the rebound, and a number of Canadian gold companies reporting solid 2016 results, investors are looking for the best of the biggest gold companies. I'll take a look at why **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) may turn out to be a better long-term bet than **Goldcorp Inc.** (TSX:G)(NYSE:GG).

Why compare these two companies?

For one, these are two of the largest gold producers in Canada with market capitalizations over \$10 billion and diverse, established mining operations around the world. Canada has some of the world's largest and best-run mining companies in the world, so comparing two of the top choices seemed logical.

And two, both companies have reported vastly improved year-end results this past week, reporting profitability for the first time in years. Now is a very interesting time to take a look at just how successful these two behemoths have been in generating value for shareholders.

Which fundamentals should be considered?

I'll look at the strength of each company's mining operations by considering each company's margins as well as their profitability using return on equity (ROE) as the primary metric. I'll also assess return on assets (ROA).

The reason I focus on margins in comparing these two companies is because the amount of value that each company will be able to generate independent of the spot price of gold is determined by the strength of the company's underlying operations. When putting hard-earned investment dollars to work in a gold company for any significant period of time, it is very important that investors compare and contrast the ability of the company to make money in good times and in bad.

It appears as though Barrick wins on both fronts, having performed much better in 2016 both in terms of margins and profitability metrics. Given the fact that 2016 was a bumpy year for gold prices, analyzing the year ends for both companies is an interesting case study in how each company

managed the up-swings and down-swings in the market.

Barrick's gross and net profit margins were 7.7% and 30%, respectively, compared with Goldcorp's gross and net margins of 4.6% and 5.8%.

In terms of profitability, Barrick again outperformed. Using ROE as our primary metric, we can see significant outperformance: Barrick's ROE sat at 8.7% compared with Goldcorp's 1.2%, and ROA was much the same. Barrick's ROA came in at 6.2% compared with Goldcorp's 0.6% ROA.

Assessing the return on each company's assets is also a useful activity in the mining sector since asset acquisitions tend to be very expensive in the mining industry and largely financed by debt, meaning a higher ROA is an indication the assets the company has purchased have been put to work effectively.

Conclusion

As of right now, we can see that both companies have generated very positive 2016 results, turning a profit amid rebounding gold prices. That said, Barrick stands out due to its operational performance and ability to generate superior returns for shareholders in a time of tumultuous gold prices.

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Date

2025/07/05

Date Created

2017/02/20

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