



Buy Gold Stocks to Hedge Against Inflation and Beat the Market

Description

Inflation has started to show up in economic data, and it may rise faster than expected. One of the best ways to protect your portfolio against inflation is to own gold, which is viewed as an [inflation hedge](#). Besides inflation, there are [other reasons](#) that could draw investors towards gold in 2018.

The gold price has rallied in 2018, rising from under US\$1,250 per ounce in mid-December to trade over US\$1,310 per ounce as of Friday. Most analysts are bullish regarding gold this year.

You can have some exposure to gold by buying gold stocks, which are more liquid than owning gold itself.

Goldcorp Inc. (TSX:G)(NYSE:GG) and **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) are two gold stocks that are undervalued relative to their high growth prospects over the next few years.

I expect these stocks to beat the market this year or next year, as their prices should eventually catch up with the rising gold price. I present here their latest results and their growth prospects over the next few years.

Goldcorp Inc.

Goldcorp's primary product is gold, and it is the world's fourth-largest gold producer, so you get a large exposition to gold with this miner.

Goldcorp more than doubled its net income in the fourth quarter of 2017 from US\$101 million to US\$242 million, boosted by one-off items.

The increased profit was primarily due to higher earnings from Cerro Negro mine due to increased gold production, an increase in the average realized gold price to US\$1,285 an ounce from US\$1,178 a year ago, and increased zinc revenues at Peñasquito due to both higher production and zinc prices.

Operating cash flows in the fourth quarter of 2017 were up 114% from the last quarter of 2016, reaching US\$511 million.

Gold production of 646,000 ounces was down from 761,000 ounces a year earlier but was somewhat offset by higher prices.

For 2017, Goldcorp's net earnings were US\$658 million, an increase of 300% compared to 2016.

The giant gold miner has a goal to reach US\$250 million in annual efficiencies and has nearly US\$200 million in savings already in place.

Goldcorp's stock is undervalued. Its forward P/E of 22 is not very low, but if you look at the PEG expected over five years, it is only 0.8. That means the stock is very cheap relative to its high expected future growth, which is estimated to be 67% in 2019 and 37% per year on average for the next five years.

Yamana Gold Inc.

Yamana is a smaller gold producer than Goldcorp. What is interesting about this company is that it also produces silver and copper, bringing diversification. As copper is expected to rise this year, it should help this miner.

Yamana reported in the fourth quarter of 2017 a loss of US\$191 million, or US\$0.20 per share, while analysts expected a profit of US\$0.03 per share. The main issue was that the company took a US\$356 million non-cash impairment charge for the re-measurement of the Gualcamayo mine and related exploration properties in Argentina, which the company is in the process of selling.

Nevertheless, this loss was lower than the US\$367.6 million loss, or US\$0.31 per share, the miner had incurred in the last quarter of 2016. For 2017, Yamana had a loss of US\$194.4 million compared to a loss of US\$308 million in 2016.

The company listed an average realized gold price of US\$1,286 an ounce in the fourth quarter, up from US\$1,210 a year ago. The average realized price of copper also increased from US\$2.48 per pound to US\$3.02 per pound. Gold production is expected to rise over the next three years.

Yamana, like Goldcorp, is undervalued. Its forward P/E of 20 may not seem very low, but if you look at the PEG expected over five years, it is only 0.6. That means the stock is very cheap relative to its high expected future growth, which is estimated to be 55% in 2019 and 40% per year on average for the next five years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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