



Which Canadian Gold Stocks Should You Buy Ahead of a Rally?

Description

Every now and then, it pays to take a quick look at gold stocks and see what they're up to. Analysts are currently suggesting that gold will undergo short-term losses but long-term gains, which seems fairly obvious: a quick look at commodity prices shows gold per ounce sits at US\$1,218.5, down -\$2.50 at the time of writing.

However, a more detailed look at a few Canadian stocks will give a clearer indication of whether to jump in or out of the yellow stuff. A gold bull seems the inevitable outcome of a growing global economy, especially if tech companies really take the initiative and start entering as-yet untapped markets. Which of the following are best to hold for that eventuality?

Eldorado Gold ([TSX:ELD](#))([NYSE:EGO](#))

This overlooked domestic miner explores, develops, and mines gold assets in Turkey, Greece, Brazil, Serbia, and Romania as well as here in Canada. It's possibly one of the best-known gold stocks on the TSX, though investor appetite for [Eldorado Gold](#) is currently at a low ebb. However, Eldorado Gold has high hopes for the future, and its share price is dirt cheap.

Since Eldorado Gold is currently loss-making, it's not possible to calculate discounted cash flow or a couple of its value multiples, though it is possible to see that its P/B ratio is 0.2 times book. This indicates that this stock is a buy today. Throw in a 64% expected annual growth in earnings, plus a decent amount of proven and provable reserves, and you could be onto a winner.

Goldcorp (TSX:G)(NYSE:GG)

Overvalued by almost double future cash flow value, this classic gold stock has a P/E of 37.6 times earnings at the time of writing. Its share price is undergoing a bit of a lull at the moment and gives a PEG ratio of twice growth. You're not getting a bad deal at all in terms of asset valuation, though, with Goldcorp's current P/B of 0.8 times book. It's one for growth investors as well as value investors, with a 19.1% expected annual growth in earnings. Throw in a 0.64% dividend yield for good measure, and you have a decent all-round Canadian gold stock.

Barrick Gold ([TSX:ABX](#))(NYSE:ABX)

Overvalued by around twice its future cash flow value, Barrick Gold isn't looking quite as good as the two stocks above today. It has a higher P/B ratio for a start at 1.4 times book, and its outlook isn't as rosy at just 5.9% expected annual growth in earnings. Barrick Gold also has a fairly high level of debt, though capital gains investors looking for a sweetener should be aware of the 1.07% dividend yield on offer.

The bottom line

Barrick Gold usually seems to come out on top whenever [Canadian gold stocks](#) get written up, but today's winner is Eldorado Gold, purely on valuation and future outlook. If you're going to get into precious metals, growth is a big factor; Eldorado's 64% expected annual growth in earnings has to be the stand-out figure in today's report.

Goldcorp comes a very close second, though, with its appropriate P/B ratio and welcome (if not significant) dividend. At the end of the day, mining investors need to work out what their profit margins will be based on share prices rather than dividends. Goldcorp has a general downward momentum, which is off-putting, while Eldorado Gold looks set to rally. Meanwhile, Barrick Gold's share price could likewise rally on rising gold prices.

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2. NYSE:EGO (Eldorado Gold Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:ELD (Eldorado Gold Corporation)

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