



Value Investors: Gold Stocks Are Too Cheap to Ignore

Description

For years, essentially since the financial crisis, many people have been saying that gold will one day become an important asset to have. The rhetoric revolved around inflation, which, according to the line of thinking, would come about as a result of easy monetary policy and excessive debt. Well, the excessive debt, we certainly have. Corporate, government, and consumer debt have all picked up considerably. The one thing that has not picked up is inflation, although there are some rumblings that this is starting to rear up as well.

But after all this time, nothing has happened with gold. The miners have been cheap for years and do not show any signs of perking up. Aside from a brief resurgence in 2016, gold mining stocks continue to waste away. The problem for a contrarian, value-oriented investor like myself, though, is that they are so cheap that I can't help being drawn to them.

Take **Goldcorp** (TSX:G)(NYSE:GG) for example. I can remember buying this stock at \$32 and thinking it was a steal after falling from the low \$50s. Luckily, I got rid of it around that price, but the lesson has stuck with me. I haven't yet had the guts to get back into it, although the low valuation of around 0.6 times book value has tempted me on many occasions. But the stock price has [simply languished](#). As one of the cheapest of the large, Canadian gold producers, it may be ready for a turnaround. Third-quarter earnings at the end of this month may provide more visibility as to the company's financial progress.

Another of the gold-mining giants, **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX), has also been languishing for years. Barrick also trades relatively cheaply and has a small 1% yield, although at this point I wonder whether it should get rid of the yield altogether and focus on investing in the business. Nevertheless, Barrick's operations are much stronger than they were in the past, with the company's operations being streamlined and debt being paid down. Its approaching merger with the financially efficient **Randgold Resources** should also help in this regard.

Agnico Eagle Mines ([TSX:AEM](#))(NYSE:AEM) has also [caught my eye](#) recently. The stock has fallen considerably over the past few months. This company is attractive because of its primarily North American operations, which insulate it somewhat from having political turmoil affecting its operations.

The stock also has a reasonable yield of 1.4%, although I have to admit I don't count too much on dividends from commodity companies as they often seem to get cut as frequently as they are raised. Agnico trades at around 1.7 times book and is considered one of the most high-quality producers around.

All of these companies are cheap, operationally sound, and have significant scale. And apart from Agnico, they have pretty much bottomed around their current share price. If anything were to change with the price of gold, you could pretty much be assured that these stock's share prices could appreciate rather quickly. The problem is not if there is value in these names, but rather when that value will be realized.

In the meantime, if you are so inclined, it might be a good idea to begin building a position in a few of the larger gold miners such as the ones listed here. They may languish, but they should not have too much more downside, especially in the case of Goldcorp and Barrick. A patient investor getting in at these prices could be handsomely rewarded.

These gold mining companies have had years of bad times, leading to significantly depressed stock prices. They are also facing near-term headwinds from rising rates and a strong U.S. dollar. But their businesses are now stronger than they once were, making these stocks ever more attractive from a value-oriented viewpoint. Besides, the economic fundamentals regarding debt and inflation are still sufficiently terrible enough that there could be significant upside on these names if the tide were finally to turn. It may not be time to get in fully right now, but these names are definitely worth a look.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:AEM (Agnico Eagle Mines Limited)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/08/25

Date Created

2018/10/04

Author

krisknutson

default watermark

default watermark