



Gold Stock Battle: Yamana Gold Inc. (TSX:YRI) or Goldcorp Inc. (TSX:G)?

Description

Investing in mining stocks can be tricky. So much can go wrong.

Emboldened by management's rosy expectations, investors are often disappointed by eventual project delays, cost overruns, and political disruption. It's no wonder that so many mining stocks have gone nowhere for decades at a time.

With valuations in the billions of dollars, **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) and **Goldcorp Inc.** ([TSX:G](#))([NYSE:GG](#)) have bucked the trend, creating companies that have survived multiple bull and bear markets.

Which one is a better buy today?

Sort through this mess first

Before we get to Yamana, it's important to understand the drama surrounding Goldcorp.

Late last year, the company had planned a mega-merger with Newmont Mining. The deal was progressing well when **Barrick Gold Corp** decided to make a competing \$17.8 billion offer for Newmont.

Goldcorp's CEO called the actions "desperate and bizarre" given that it actually undervalued Newmont's assets in comparison to Goldcorp's bid.

At the time, I [wrote](#) that it's "possible that a joint venture is all Barrick seeks, meaning that its recent bid would just be a stepping stone toward executing that goal."

On March 11, my prediction came true. Barrick and Newmont opted to create a joint venture by combining their Nevada mines, after which Barrick ended its hostile bid. It was reported that the deal will create \$500 million in annual savings.

Now, Goldcorp can move ahead with its merger with Newmont, creating a gold mining behemoth.

“This is going to be the largest reserve base that anyone has in the industry,” noted Newmont’s CEO. “We’re going to have 18 operations and we’re going to do all the things that we’ve done over the past five to six years.”

What about Yamana?

Yamana has been doing some deal-making of its own.

In March, the company announced it would partner with **Glencore PLC** and Goldcorp to build and run its gold and copper mine in Argentina. The project will now benefit by using the three companies’ combined assets in the region.

Yamana will retain a majority ownership in the project, while Glencore will own 25%. Goldcorp should end up with a roughly 19% stake.

Which stock is more attractive?

This is really the tale of two companies. Goldcorp is now set to become one of the biggest gold miners in the world. Yamana, while stronger due to recent deals, remains significantly smaller at roughly 10% the size of a post-merger Goldcorp.

While both companies give you upside to gold prices, the choice now comes down to risk management.

With newfound scale, Goldcorp should be able to lower its all-in costs toward industry-leading levels. Yamana will remain a growth play, especially given that its Cerro Moro mine is now in commercial production.

While investors gobble up large mining companies like Goldcorp, smaller stocks are getting left in the dust. Yamana shares now trade at 60% of book value and 1.4 times sales. Goldcorp, for comparison, trades at 98% book value and 3.4 times sales.

There’s a lot that goes into those two metrics, but it’s clear that expectations are lower for Yamana. In an industry rife with disappointment, I’d stick with the stock that has less excitement priced in: Yamana.

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