



## Gold Bull Market! Better Buy: Buffett's Barrick Gold (TSX:ABX) or Newmont (TSX:NGT)?

### Description

A gold bull market is in progress! One analyst, who went through three previous gold bull markets, thinks the [gold price](#) can reach *at least* US\$4,500. (Gold current sits at US\$1,900, which means a double is in the cards.)

Warren Buffett also thinks there's room for gold to run. Otherwise, he wouldn't have [started a position](#) in **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) in the second quarter. Since the Barrick position is only approximately 0.2% of the **Berkshire** stock portfolio, there is ample room to up that position.

The gold price bottomed in 2016 and consolidated for more than three years before breaking out of the roughly US\$1,400-per-ounce resistance in mid-2019. The stock price chart of this gold ETF illustrates a similar trajectory.



GLD data by YCharts. The 10-year stock price chart of GLD.

## The gold stocks' shiny profits

Barrick's larger scale and more efficiently run company may be why Buffett chose to invest in it over **Newmont** ([TSX:NGT](#))([NYSE:NEM](#)).

From 2016 to 2019, Barrick increased its revenue and EBITDA by 14% and 10%, respectively. As well, Barrick's EBITDA margin fell from 48.5% to 46.8%.

In comparison, in the three-year period, Newmont's revenue and EBITDA increased by 46% and 47%, respectively, partly because it completed the Goldcorp acquisition in April 2019. It also managed to improve its EBITDA margin from 38.7% to 39.0%.

*Investopedia* explains the "EBITDA margin [as] a measure of a company's operating profit as a percentage of its revenue." Barrick's higher EBITDA margin suggests a more efficiently run company.

The mid-2019 breakout of the gold price really helped push their profits higher. In the trailing 12 months (TTM) that ended in Q2, Barrick's EBITDA margin expanded to 49.5%. Its revenue and EBITDA were US\$11,337 million and US\$5,614 million, respectively, up 44% and 73% year over year.

In comparison, Newmont's EBITDA margin expanded to 43.9%. Its revenue and EBITDA were US\$10,626 million and US\$4,660 million, respectively, up 36% and 61% year over year.

## Barrick Gold and Newmont are gushing cash

The gold miners are gushing cash. In the TTM, Barrick Gold generated operating cash flow of US\$3,799 million and reported capital spending (capex) of US\$1,908 million. This resulted in free cash flow (FCF) generation of US\$1,891 million.

In the same period, Newmont generated US\$3,596 million in operating cash flow and reported capex of US\$1,466 million. Consequently, its FCF generation was US\$2,130 million.

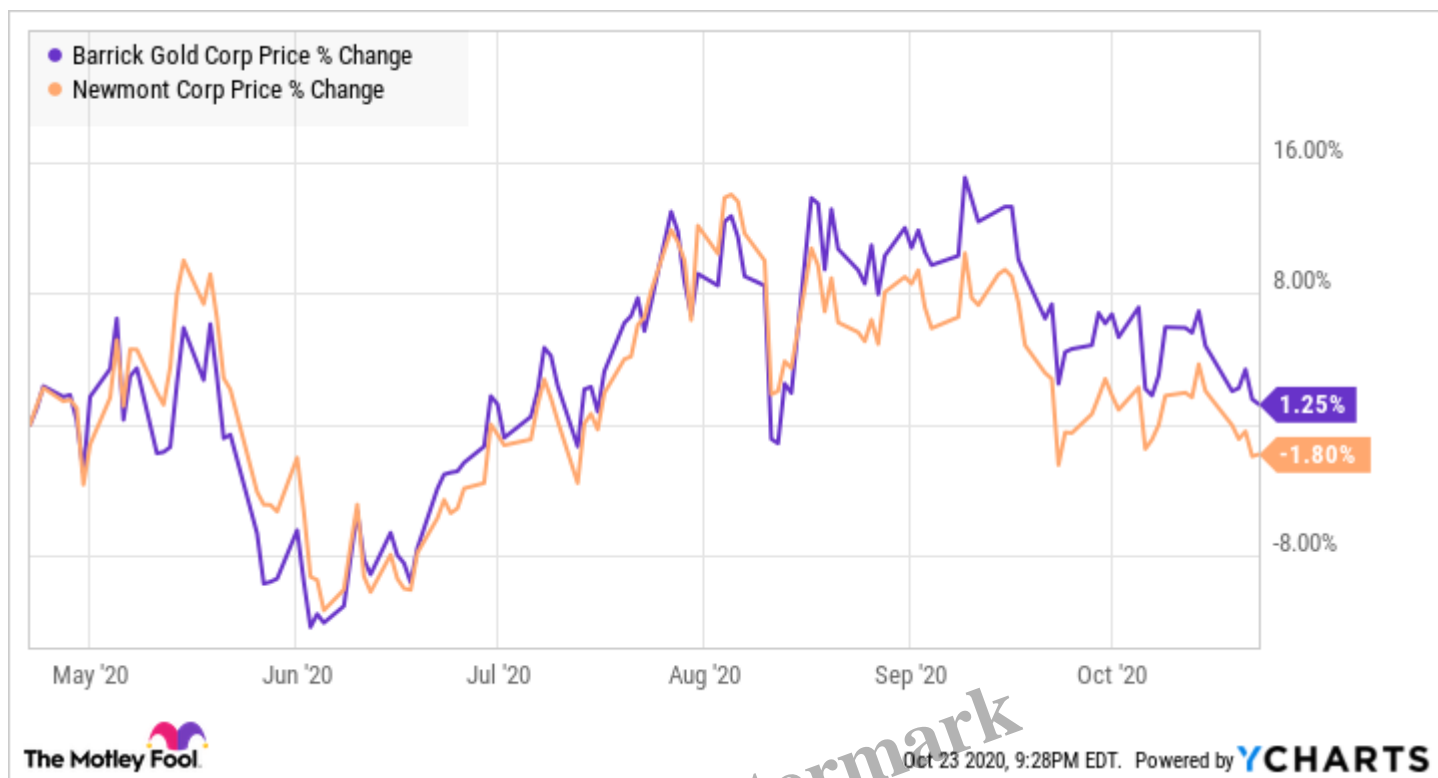
The gold price is about 26% higher than it was a year ago. And both companies estimate lower capex in 2020. Barrick and Newmont estimate capex of approximately US\$1,750 million and US\$1,400 million, respectively, this year. Even if the gold price just remains stable, it should still translate to greater FCF generation over the next 12 months.

The more likely scenario is that the gold price will reliably grow in the near to medium term, as long as central banks around the world keep the money-printing press hot.

## The Foolish takeaway

The investing community is still warming up to the idea of investing in gold or gold stocks. Investors who have stayed on the sidelines cannot be blamed, because gold investing often leads to underperforming returns during times of little movement in the gold price.

Now is not that time. Gold prices are high. And the stocks of the largest two gold miners in the world have essentially consolidated and gone nowhere in the last 12 months.



Data by YCharts. The six-month stock price chart comparison of NYSE:GOLD and NYSE:NEM.

Between the two, Newmont stock trades at a slight discount of over 8% to Barrick based on a forward enterprise value to EBITDA multiple.

In any case, both stocks have attractive upside potential. According to average analyst targets, Newmont and Barrick both have 12-month upside potential of about 31%.

Therefore, you probably can't go wrong with either company over the next 12 months.

On one hand, if you're really stringent on the numbers, you might go with Newmont that offers a bigger yield of 1.65% versus Barrick's 0.6%.

On the other hand, if you prefer the best quality company, you would go with Barrick, which enjoys a higher margin and can better meet its near-term obligations.

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## TICKERS GLOBAL

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2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:ABX (Barrick Mining)
4. TSX:NGT (Newmont Mining Corporation)

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