



Gold Bulls Find Value in Gold Stocks

Description

The recent gold price sits at about US\$1,800 per ounce. Moreover, gold is believed to be a good inflation hedge. Because of recent high inflation, there's a good chance that gold prices should stay strong. That said, gold stocks have corrected recently and could be a good value investment in an expensive market. [Gold stocks](#) could add diversity to Canadian stock portfolios.

Barrick Gold

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) stock has corrected about 20% from its high to US\$20 per share. The gold producer's recent net margin was 20%, which was decent thanks to higher gold prices.

In the second quarter (Q2), it realized a gold price of US\$1,820 per ounce, while the all-in sustaining costs of production were US\$1,087 per ounce. Its gold production fell 9% year over year (YoY). All in all, its adjusted earnings-per-share (EPS) was US\$0.29, up 26% YoY. This implies a payout ratio of 31%.

Looking at the bigger picture, the trailing-12-month payout ratio based on free cash flow was under 20%. Moreover, the gold miner had almost US\$5.2 billion of cash and cash equivalents on its balance sheet at the end of the quarter.

Barrick Gold is a value stock among large gold miners. The gold stock could deliver an upside of about 40% over the next 12 months if the environment remains favourable for gold miners.

Newmont

Newmont ([TSX:NGT](#))(NYSE:NEM) stock has been more resilient than Barrick Gold stock, as indicated by its sideways action since mid-2020. The gold stock has corrected about 22% from its high to US\$58 per share. The gold producer's recent net margin was 23%, which was higher than Barrick Gold's.

In Q2, it realized a gold price of US\$1,823 per ounce, while the all-in sustaining costs of production

were US\$1,035 per ounce. Its gold production increased 6% YoY.

Newmont yields almost 3.8% and its next ex-dividend date is coming up soon on September 8. Its trailing-12-month payout ratio based on free cash flow was 39%. Moreover, the gold miner had almost US\$4.6 billion of cash and cash equivalents on its balance sheet at the end of the quarter.

If things work out, the gold stock could appreciate about 28% over the next 12 months.

Wheaton Precious Metals

Wheaton Precious Metals ([TSX:WPM](#))([NYSE:WPM](#)) is a more conservative holding for those seeking exposure to precious metals in their long-term investment portfolios. It doesn't explore or operate mines. So, its operating cost is kept low.

At the end of Q2, WPM had US\$235.4 million of cash and cash equivalents and no long-term debt on its balance sheet.

As a precious metals streaming company, WPM enjoys predictable costs and high margins from buying by-product precious metals and cobalt from mines. It would make an upfront payment and an additional payment upon delivery of the metal.

In the first half of the year, Wheaton Precious Metals witnessed its revenue jumping 30% to US\$654.5 million, while its diluted EPS increased 63% to US\$0.728. It also resulted in a net margin of 50%, which is superb.

Over the next 12 months, the stock can appreciate 33%, if things go well. It also yields 1.3% that will help boost total returns.

The Foolish investor takeaway

If you're looking for value in an expensive market, consider precious metal stocks like [Barrick Gold](#), Newmont, and Wheaton Precious Metals. Barrick appears to provide the greatest value, while WPM seems to be the most stable pick.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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2. NYSE:NEM (Newmont Mining Corporation)
3. NYSE:WPM (Wheaton Precious Metals Corp.)
4. TSX:ABX (Barrick Mining)
5. TSX:NGT (Newmont Mining Corporation)
6. TSX:WPM (Wheaton Precious Metals Corp.)

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Date

2025/07/20

Date Created

2021/09/01

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