Gold Industry Consolidation: Should You Buy These 2 Stocks Right Now?

Description

South Africa-based **Gold Fields**, one of the largest gold mining companies globally, recently entered a definitive agreement to buy Canadian **Yamana Gold**. The resulting entity would climb up the ranks of mining companies in gold production (third — by 2024) and market capitalization (third).

This acquisition will further consolidate the sector, but on its own, it won't change the dynamics of the industry (as a whole) by much.

However, it might also be an indication — a sign of things to come. If major players in the industry start looking for mergers and acquisition opportunities, we might see more deals like this.

But what are the implications for the investors? The stocks of companies being acquired or the ones acquiring other companies can move in unprecedented ways, creating both short-term and long-term opportunities. Short-term spikes, like the double-digit one Yamana experienced when the news broke, can be useful. But long-term impacts of a successful merger can be more potent.

A mining giant

If you are looking for "acquirers" in an industry that is going through a consolidation phase, giants like **Barrick Gold** (TSX:ABX)(NYSE:GOLD) should be on your radar. Barrick already has an impressive and geographically diversified portfolio of operational gold mines and is engaged in several exploration projects. The diversification helps the company spread out and slightly reduces the total operating cost.

The company made a $19 billion hostile bid for **Newmont** in 2019 but later pulled out. Instead, it's pursuing joint ventures with the competitor. That doesn't mean the company cannot make a move on smaller players, especially the ones in distress that might welcome Barrick's resources and financial strength.

And if you anticipate such a merger in the near future, buying now when the yield is quite close to 2% would be smart. Because if it starts trading at a new high, you would have to wait for a dip or adividend rise to lock in a similar yield.

A mid-cap mining company

Centerra Gold (TSX:CG)(NYSE:CGAU) is not small per se, but with a $2.9 billion market cap, it seems like the kind of gold miner that's more likely to be *acquired* by a larger company than do the acquiring itself. However, Canterra has made several acquisitions since its inception; the two most recent ones were in 2016 and 2018.

Its geographically spread-out portfolio makes it an attractive acquisition, nevertheless. But if you consider its healthy financials, almost no debt, and proven reserves in its portfolio, it seems that the company will not lean towards an acquisition. And if an offer is made that prices in all the Canterra's strengths into its current value, it can trigger a sizeable short-term spike in the price, whether or not it goes through.

Foolish takeaway

While gold stocks cannot be classified as cyclical stocks by the traditional standards, most have an uneven growth pattern. With such stocks, news regarding acquisitions and mergers can become the triggers for both upward and downward motions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:CG (Centerra Gold Inc.)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. adamothman
2. kduncombe

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/23
Date Created
2022/06/03
Author
adamothman