Barrick now eclipsed by Goldcorp for title of largest market cap

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Barrick Gold Corp. is by far the world's largest gold producer. It has the most mines and the most reserves. But it is no longer No. 1 where it matters most.

In recent days, Barrick has been eclipsed by Goldcorp Inc. for the title of largest market capitalization in the gold sector. It is an embarrassing development for Barrick, and comes shortly after the company went through a CEO change and reported massive cost escalation at its key growth project.

Goldcorp enjoys a premium valuation that Barrick can only dream of right now. ***Pawel Rajszel***, an analyst at ***Veritas Investment Research***, calculated that Goldcorp trades at 10.7 times forward cash flows, compared to 5.3 times for Barrick. Mackie Research Capital analyst Barry Allan has Goldcorp trading right at net asset value, while Barrick is at a 20% discount.

Their relative valuations prove that production is only a small part of the story when investors compare senior gold miners.

Barrick is aiming to churn out 7.3 to 7.8 million ounces of gold this year, more than triple Goldcorp's guidance (2.35 to 2.45 million). However, Goldcorp has the better growth profile. While Barrick plans to have a production base of at least eight million ounces by 2015, Goldcorp hopes to reach 4.2 million ounces by 2016, nearly double the current level. And since Goldcorp has much less production, each mine that comes onstream has a greater impact on its earnings and cash flows.

Thanks to secondary production of copper, silver and other metals, Goldcorp also enjoys lower costs and higher margins than Barrick. In the third quarter of 2012, Goldcorp's margin was US$1,465 an ounce, compared to US$1,118 for Barrick.

Goldcorp's market value has been close to Barrick's for a number of years, but what finally put it over the top was Barrick's recent turbulence. Former CEO Aaron Regent was fired in July over a weak share price, and the company is dealing with soaring costs at its Pascua-Lama project on the Chile-Argentina border, which have climbed to as much as US$8.5-billion. Investors remain confused about its base metal strategy after it spent $7.3-billion on a copper acquisition last year.

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“A client asked if I have a sense of the roadmap for Barrick, and my answer was ‘No, I really don’t’,” Mr. Allan said. “I know what’s been said, but I don’t think we’ve seen tangible evidence of what it really means.” He expects the company to provide more details on its strategy early next year.

Goldcorp is having a difficult year as well — it cut production guidance in July, and has faced operating problems at its flagship mines in Canada and Mexico. But the company has not created as much investor uncertainty as Barrick or Kinross Gold Corp., another underperformer.

That said, analysts noted that Goldcorp carries arguably more risk than Barrick over the next few years.

To achieve its long-term guidance, Goldcorp has to bring several new mines into production, which is always a big challenge. The company is going to update the cost estimates on its projects early next year, and they are certain to be higher — the only question is how bad the damage will be.

By comparison, Barrick could have an easier time meeting guidance once Pascua-Lama is finally up and running.

“Goldcorp has more growth, but you’re paying a 100% premium for that growth. It’s a lot riskier to grow than maintain production. So I think Goldcorp is a lot riskier than Barrick,” ***Mr. Rajszel*** said.