Softer Gold Prices Continue to Punish Goldcorp

Description

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Gold continues to be pummeled, tumbling by 25% this year to around $1,276 per ounce. Even more worrying is that gold will more than likely continue to fall because of stronger U.S. economic growth. This is having a significant impact on the performance of gold miners, with Canada's second-largest gold miner **Goldcorp** (TSX:G, NYSE:GG) being hit particularly hard.

Third-quarter financial results were devastating
Despite reporting strong operational results for the third quarter, Goldcorp's financial performance fell sharply. Production grew almost 8% compared to the same period last year. But cash flow fell 37% and net earnings dropped by a whopping 99% for the same period because of softer precious metal prices and rising costs.

Disappointingly, all-in sustaining costs (the most accurate measure of the cost of production) spiked by 24% to $991 an ounce in an environment where precious metal prices continue to soften. For the quarter, Goldcorp realized an average price of $1,339 an ounce — when coupled with its high all-in sustaining costs per ounce, it was left with a thin margin per ounce produced.

With the price of gold having fallen further, Goldcorp's margin per ounce has dropped to $284. This certainly doesn't bode well for Goldcorp's fourth-quarter results and I'm expecting its financial performance to continue to weaken.

Gold prices
Gold has already fallen 25% for the year and it's likely to fall some more. Mind you, gold price is sensitive to U.S. Federal Reserve policies. Should stronger-than-expected U.S. economic data in October indicate a so-called tapering in Fed Quantitative Easing policy in the coming months, there will be further downward pressure on the price of the precious yellow metal. The price of the miners will almost certainly follow.

Already, Goldcorp's share price has plunged 31% for the year. Any further fall in the gold price would almost certainly reduce Goldcorp's margin per ounce and significantly impact its future profitability.

What does this mean for investors?

Now is certainly not the time for investors to panic. Despite all of the negatives surrounding this stock, Goldcorp has a solid balance sheet — its debt-to-equity ratio of 0.1 is less than half the industry average — and a diverse range of quality assets.

It also has a current ratio of over 1, indicating that despite its recent poor financial results, its liquidity remains solid. It's not facing the liquidity issues impacting some of its peers in an operating environment with softer precious metal prices.

For instance, Goldcorp's debt-to-equity ratio is less than a tenth of **Barrick Gold's** (1.1). That degree of leverage, coupled with softer precious metal prices, has already forced Barrick to raise additional capital.

Foolish final thoughts
The pain is not yet over for gold miners and investors in the sector. Still, now is not the time to panic — particularly for investors in miners like Goldcorp that have solid balance sheets and high-quality assets.

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1. Investing

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