



One Contrarian Pick for 2014

Description

Since the start of 2013 the price of gold has been crushed, with the final nail in the coffin of the gold bull market being the Fed's decision to start unwinding quantitative easing late last year. Despite these adversities, which caused the shares of Canadian gold mining heavy weight **Goldcorp** (TSX:G)(NYSE:GG) to plunge by 33% over the last year, I believe the company offers investors significant value.

Yes, Goldcorp's financial results throughout 2013 were disappointing, but this can be attributed primarily to softer precious metal prices rather than any company-related issues. The company is scheduled to announce fourth quarter and full-year 2013 results on 13 February.

The outlook for gold may be looking up

The recent market rout — triggered by growing uncertainty about the direction of key emerging markets and significant weakness in a number of emerging market currencies — is causing investors to seek out traditional safe-haven investments. That makes gold a far more attractive investment and is causing its price to spike by 3.5% for the year to date, highlighting the volatility of the current market and demonstrating that gold and gold miners are still relevant investments.

Despite softer precious metal prices, Goldcorp has continued to grow production, with the company reporting record production for the fourth quarter 2013 of 767,700 ounce of gold. Total production for 2013 was 2.67 million ounces — an 11% increase over 2012. Management expects to continue increasing production in 2014 with recent guidance forecasting a 12% increase to 3 million ounces for the full year.

Goldcorp's management has also focused on reducing the company's all-in sustaining cost per ounce of gold produced, which is the most accurate means of determining the cost of production and profitability. For 2013, the company expects to report an all-in sustaining costs per ounce of \$1,065.

Management estimates that for 2014 this figure will be between \$950 to \$1,000 per ounce produced. This is well below the current gold price of U.S. \$1,270 and underscores Goldcorp's continuing profitability despite softer gold prices. As a result I would expect Goldcorp's earnings to continue

growing as the company works to grow production and reduce all in sustaining costs.

The Osisko takeover offer has potential

On January 2014 Goldcorp announced that it had [made an offer](#) to acquire all of the outstanding common shares of **Osisko Mining** ([TSX: OSK](#)) for approximately \$2.6 billion in cash and shares. This has the potential to be an accretive transaction for Goldcorp that boosts its gold reserves by 10 million ounces and increases production by around 120,000 ounces per quarter.

It will also help to lessen the risk of Goldcorp's operational portfolio, giving it ownership of the Malartic mine located in the relatively low-risk jurisdiction of Quebec. Currently, a large portion of Goldcorp's reserves and production are located in higher risk jurisdictions in Latin America.

A consistently growing dividend continues to reward investors

One of the standout aspects of Goldcorp is its monthly dividend payments and attractive dividend yield of 2.60%.

Admittedly this yield is lower than the 2.85% yield currently paid by 10-year Canadian government bonds, but what makes it attractive for income-hungry investors is that it has consistently risen in value over the last 10 years.

These consistent dividend increases give it a compound annual growth rate of 31%, which is significantly higher than Canada's annual average inflation rate over the same period. This makes Goldcorp an attractive investment because it continues to reward investors with a consistently growing dividend.

Foolish bottom line

Over the past year Goldcorp has delivered some disappointing results for investors. But with the company focused on boosting production and reducing operational costs, it is clear it will continue to unlock value for investors. In addition, the steadily increasing monthly dividend will continue to reward patient investors who are in for the long haul.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:OSK (Osisko Mining)

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