



Goldcorp's 2013 Earnings Disappoint — Is it Time to Sell?

Description

Along with **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX), Canadian gold mining heavyweight **Goldcorp** (TSX:G)(NYSE:GG) reported its fourth quarter and full year 2013 earnings this week. These results were particularly disappointing, with a series of write-downs and charges on a range of projects leading to a net loss of U.S.\$1.1 billion or U.S.\$1.34 per share.

Impairments and tax charges took a big chunk out of the bottom line

This spectacular loss was caused by Goldcorp — [like Barrick](#) — making a series of write-downs across its operations for the fourth quarter 2013. But these write-downs only totaled U.S.\$443 million, or less than a fifth of Barrick's spectacular U.S.\$2.8 billion of write-downs for the same period.

Goldcorp also recorded a tax charge of U.S.\$763 million primarily due to recently enacted income tax laws in Mexico. Leaving total impairments and charges at a monster U.S.\$1.2 billion, sending Goldcorp's net income plunging into the red.

Of even more concern, despite fourth quarter 2013 all in sustaining costs per ounce produced falling 7% to \$810 quarter-over-quarter, they shot up 18% to \$1,031 per ounce for the full year. With gold now trading at U.S.\$1,302 per ounce, this leaves Goldcorp a rather thin operational margin of U.S.\$271 per ounce produced. It is also even more concerning when the outlook for gold is uncertain, with the price expected to slide further as the Fed continues tapering quantitative easing.

This all in sustaining cost per ounce is also significantly higher than many of Goldcorp's peers. In comparison, for the full year 2013 Barrick reported all in sustaining costs of \$915 per ounce produced and **Yamana Gold's** ([TSX:YRI](#))(NYSE:AUY) was \$947 per ounce produced.

Unfortunately the bad news didn't end there for investors, with Goldcorp's proven and probable gold reserves plunging 15% to 54.4 million ounces of gold. The primary drivers of this were ongoing depletion through mining activities coupled with the use of a lower gold price — \$1,300 per ounce compared to \$1,500 an ounce in 2012 — to calculate year-end reserves.

Fourth quarter and full year 2013 production growth was spectacular

But it all wasn't bad news for investors. Goldcorp reported record gold production for both the fourth

quarter 2013 of 700,000 ounces and the full year 2013 of 2.7 million ounces.

This represents an impressive 10% and 13% respectively for those equivalent periods in 2012. Such a significant growth in production has gone some way to offsetting softer gold prices.

But what does all this mean for investors?

Clearly, despite hitting record production numbers, Goldcorp has reported a poor result for the fourth quarter and full year 2013, which is disappointing given the quality of its asset base. Much of this can be attributed to softer precious metal prices and Goldcorp's rising all in sustaining costs per ounce produced.

I am also concerned that Goldcorp has chosen to calculate its gold reserves using a gold price of \$1,300 per ounce. This is only marginally lower than the gold price of \$1,302 per ounce at the time of writing.

Barrick calculates its reserves using \$1,100 per ounce and Yamana a lowly \$950 per ounce, indicating their proven and probable reserves are more sustainable in an operating environment subject to an uncertain outlook and softer gold prices.

But the good news for investors is that in Goldcorp's 2014 guidance, management estimates production will continue increasing, by between 3 million to 3.2 million ounces or 13% to 18% in 2014. Management also estimates that all in sustaining costs will fall to \$950 and \$1,000 an ounce, boosting Goldcorp's margin per ounce produced, and its profitability.

Foolish bottom line

There are a number of positive factors that bode well for Goldcorp's financial performance to improve throughout 2014, particularly with the recent 6% spike in the price of gold for the year to date. But I believe Barrick and Yamana appear more attractive. Both have used a significantly lower price per ounce to calculate their reserves and lower all-in-sustaining-costs per ounce produced.

CATEGORY

1. Investing

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2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:YRI (Yamana Gold)

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