



Goldcorp On Track to Deliver a Solid 2014

Description

Canadian gold-mining heavyweight **Goldcorp** (TSX: G)(NYSE: GG) continues to make significant progress in cutting costs and growing profitability in a challenging operating environment weighed down by softer precious metal prices.

This saw the company report some solid results for the first-quarter 2014, despite the difficult operating environment, with the standout result being particularly low all-in sustaining costs per ounce of gold produced.

First-quarter results were better than expected

For the first quarter 2014, Goldcorp's all-in sustaining costs were among some of the lowest, falling a whopping 26% year over year to U.S. \$840 per ounce. This is only marginally higher than **Barrick Gold's** ([TSX: ABX](#))(NYSE: ABX) first quarter all-in sustaining costs of U.S. \$833 per ounce, which was the lowest of the senior gold producers.

This significant drop in costs coupled with gold rallying earlier this year allowed Goldcorp to deliver better than expected financial results. The company beat the average analyst earnings estimate per share of U.S. \$0.14 by a particularly healthy 86%, reporting adjusted net earnings of U.S. \$0.26 per share.

These results were helped by Goldcorp being able to increase quarterly production and delivering some solid operating results despite the sale of two gold assets during the quarter. Gold production was up by a solid 11% year over year to 679,900 ounces, while silver production jumped a massive 71% to 9.6 million, all of which helped to boost the bottom line.

More importantly for investors is that on the back of these solid results, Goldcorp has confirmed its 2014 guidance of 2.95-3.10 million ounces of gold being produced and all-in sustaining costs of between U.S. \$950 to U.S. \$1,000 per ounce. However, when the first-quarter results are coupled with all-in sustaining costs per ounce being significantly lower than guidance, I would expect to see full year 2014 all-in sustaining costs to be lower than this guidance.

Divestments and ongoing project development bodes well

During the first quarter Goldcorp continued with plans to divest itself of low margin and non-core assets. This saw the sale of its shareholding in Primero Mining for \$225 million completed in March and the sale of its share of the Marigold mine completed in April 2014. These asset sales have provided further capital that can be directed to strengthening the company's balance sheet and used to fund the continuing development of core mining assets.

Goldcorp has also confirmed its Cerro Negro project in Argentina is on track to commence production in mid-2014 along with first production from the Éléonore Project in Canada expected to commence in late 2014. Both of these will further boost Goldcorp's production from low-cost high ore grade mines, boding well for lower production costs and increased profitability over the long term.

But it wasn't all smooth sailing for Goldcorp during the quarter with its bid for Osisko failing. There are also concerns over whether Goldcorp will be required to revise its gold reserves downwards by the end of 2014, with the company having calculated its gold reserves of million ounces using a gold price of \$1,300 per ounce.

While this is marginally below the current price of gold of \$1,302 per ounce, it is significantly higher than the price used by many of its peers to calculate their gold reserves. Barrick Gold has used \$1,100 per ounce, whereas Yamana Gold used a very conservative \$950 per ounce.

There have also been some particularly bearish calls on the outlook for gold prices, with Goldman Sachs expecting it to hit a low of \$1,050 per ounce during the year. Accordingly, any sustained fall in the price of gold will force Goldcorp to recalculate its reserves, which will see them drop from current levels, with gold reserves which are uneconomic to mine excluded from its asset base.

Like Barrick Gold, Goldcorp has successfully readjusted its operations to allow it to remain profitable in a difficult operating environment characterized by softer precious metal prices and a volatile pricing outlook.

Clearly if the company is able to continue producing similar results to its first quarter throughout 2014 it will deliver a solid financial performance despite the volatile outlook for precious metal prices.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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Date

2025/08/09

Date Created

2014/05/07

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