



Goldcorp's Strategy Could Lead to Riches for Investors

Description

A number of market pundits are saying that the gold mining sector is dead, and that the majority of its participants offer little to no value for investors. I would strongly disagree with this, however, in light of the signs of growing merger and acquisition activity in the industry.

Despite the industry suffering as a whole because of softer precious metal prices, a number of players have adjusted their operations to remain profitable in this difficult operating environment. This has left them well-positioned to take advantage of low asset prices and expand their operations so as to boost their bottom lines.

Why Goldcorp stands out

One player that stands out in particular is Canadian gold mining heavyweight **Goldcorp** (TSX: G)(NYSE: GG), despite its recent failed takeover attempt of **Osisko Mining** ([TSX: OSK](#)). Not only has the company adjusted its operations to remain profitable but it has also built up a considerable war chest of funds, leading market pundits to believe that it is readying itself for further acquisitions.

Goldcorp also cleared the decks at the end of last year by writing down a number of marginal assets and reevaluating its reserves using a gold price of \$1,300 per ounce, or 13% lower than the price utilized in 2012.

Another extremely positive aspect of Goldcorp's operations has been its ability to significantly reduce its all-in-sustaining-costs per ounce produced. For the first quarter these costs rose marginally by 4% compared to the previous quarter, but plunged a healthy 26% against the first quarter of 2013 to \$840 per ounce.

Potential capital raising indicates acquisitions are on the table

What is increasing speculation is Goldcorp's massive war chest, with the company already holding \$1 billion in cash at the end of the first quarter of 2014. It also has an extremely low debt-to-equity ratio of 0.15 and total debt of just over \$1.5 billion.

Now the company is eyeing a debt issue, which could raise up to \$1 billion over the next two years. Goldcorp, unlike **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) at the end of 2013, has a solid financial foundation and no need to raise funds, implying that those funds are more than likely earmarked for an acquisition after its failed tilt at Osisko.

With asset prices in the industry having hit new lows since the end of the gold rally in late 2012, now could be just the right time for a large-scale player with considerable cash on hand like Goldcorp to look at making acquisitions.

Mergers and acquisitions activity in the sector is already heating up, with **Agnico Eagle Mines** ([TSX: AEM](#))(NYSE: AEM) and **Yamana Gold** ([TSX: YRI](#))(NYSE: AUU) beating out Goldcorp for the friendly acquisition of Osisko, worth \$3.9 billion. In addition, **B2Gold** ([TSX: BTO](#))(NYSE: BTG) recently agreed to acquire Australian gold miner Papillon Resources for around \$621 million. Now B2Gold will gain access to the Fekola project in Mali, which is believed to be one of the premier projects in Africa and is expected to produce 306,000 ounces of gold annually.

Goldcorp also has a solid portfolio of assets under development, with the company keen to boost production. This would see at least a portion of the funds available to it directed to further developing those projects.

The company has expressed considerable interest in advancing the development of the Camino Rojo project in Mexico, which has reserves of 1.63 million ounces of gold and 32 million ounces of silver. It is expected that the three mines under construction will be completed this year; Goldcorp has some promising exploration results from the project, where additional drilling identified a further five million ounces of gold as indicated resources.

Clearly, Goldcorp is positioning itself to significantly expand its core asset base through a series of acquisitions, further development of existing assets, or a combination of both. With the company now having some of the lowest all-in-sustaining-costs per ounce, any significant growth in gold production bodes well for growing profitability even if gold prices continue to soften.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:BTO (B2Gold Corp.)
4. TSX:OSK (Osisko Mining)
5. TSX:YRI (Yamana Gold)

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