3 Reasons Goldcorp Inc's Recent Earnings Make it a Must-Have Investment

Description

A mixed outlook for precious metal prices continues to act as a drag on the share prices of the major miners. However, as Wall Street and institutional investors continue to place big bets on beaten-down gold miners and a range of indicators support greater demand for gold, it is clear that a rally is imminent.

One gold miner that continues to stand out is Canada's **Goldcorp Inc** (TSX: G)(NYSE: GG), which not only recently reported its earnings for the second quarter of 2014 but is also receiving considerable interest from Wall Street.

Wall Street has bet big on Goldcorp

Famed institutional investors John Hussman and George Soros have both bet big on Goldcorp, purchasing $9.9 million and $11.2 million of its shares, while Ray Dalio of Bridgewater Associates has invested a cool $13 million. This alone should be telling investors that the big end of town is expecting a rally in gold and that Goldcorp offers considerable opportunity for investors. Here's a deeper look at Goldcorp to understand their rationale.

1. A strong balance sheet

After completing the placement of U.S.$1 billion in unsecured notes and selling assets for a total of $468 million in the first half of 2014, the company has built an enviable balance sheet. Not only does it have sufficient cash on hand to meet its debt repayment obligations of $863 million in convertible senior notes that mature in August 2014, but there is also growing speculation among industry insiders that it is building a war chest for acquisitions.

By the end of the second quarter, Goldcorp had over U.S.$1.2 billion in cash on its balance sheet. Even after meeting short-term debt repayment obligations it would have sufficient cash to make a tilt at a smaller miner. The likelihood of this is high given depressed asset prices in the industry, as well as the fact that Goldcorp's tilt at Osisko Mining Corp earlier this year was rebuffed.

All of these things leave Goldcorp with one of the lowest degrees of leverage among the senior gold miners, with net debt of 1.8 times cash flow and a very conservative debt-to-equity ratio of 0.17.

2. Falling operating costs

Another key aspect of Goldcorp's operations that is attractive to investors is that its operating costs, or all-in sustaining costs, continue to tumble. Although they spiked by 3% in the second quarter compared to the first quarter of 2014, they dropped a stunning 31% compared to the second quarter of 2013, highlighting the company's commitment to reducing its cost structure.

Goldcorp's all-in sustaining costs of $852 per ounce is also one of the lowest among senior gold miners, being lower than **Barrick Gold Corp.'s** (TSX: ABX)(NYSE: ABX) $865 per ounce or **Newmont Mining Corp's** (NYSE: NEM) $1,063 per ounce. This leaves Goldcorp well positioned to generate a solid margin per ounce of gold mined, allowing it to remain profitable even if precious metal prices continue to soften.

These impressive cost cuts saw Goldcorp's second-quarter 2014 net earnings almost double quarter-over-quarter and report a profit of U.S.$0.22 per share compared to its second quarter of 2013 loss of U.S.$2.38 per share. Furthermore, with gold prices continuing to hover around $1,290 per ounce and signs that a rally in gold is due, I expect to see Goldcorp report strong earnings for the remainder of 2014.

3. A solid portfolio of projects under development

Goldcorp continues to maintain a solid portfolio of projects under development, with the Cerro Nero project in Argentina producing its first gold in July 2014. The mine is expected to produce 130,000 to 180,000 ounces over the remainder of the year.

The Eleonore project in Canada also remains on track for completion later this year, with its first gold expected to be produced in the fourth quarter of 2014, while full commercial production of 575,000 to 625,000 ounces of gold is expected to occur in the first quarter of 2015.

The completion of these projects and their ramp-ups to commercial production will significantly boost Goldcorp's production. Since gold prices are expected to rise over the remainder of 2014, this will certainly boost both profitability and earnings.

Goldcorp is firing on all cylinders and reported a superior performance over Barrick and Newmont for the second quarter of 2014. However, this comes at a price, with Goldcorp currently trading with an enterprise value of 17 times EBITDA compared to Barrick's seven times and Newmont's five times. This doesn't appear to worry Wall Street, though, and neither should it worry investors, as Goldcorp is well positioned to deliver over the remainder of the year.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
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