



## 3 Reasons Why Goldcorp Inc. Is Headed Higher

### Description

Investors in **Goldcorp Inc.** (TSX: G)(NYSE: GG) have had a rough ride during the past two years as the price of gold has fallen and investors have bailed out of the entire gold mining sector. Faced with low prices, Goldcorp and other major gold mining companies have been forced to cut costs as they try to remain profitable.

They have done this by reducing the number of projects they operate and focusing on production quality rather than simply trying to maximize gold output regardless of cost.

The restructuring has been painful but most of the bad news is in, and investors should consider adding gold stocks to their portfolios.

Here are three reasons why I think investors should buy Goldcorp.

#### 1. Improved efficiency

The focus on cost-cutting at Goldcorp is already paying off. In its Q2 2014 earnings report, Goldcorp announced all-in sustaining costs of \$862 an ounce. Compare this to \$1,227 an ounce in the second quarter of 2013. Also, its flagship Penasquito mine in Mexico reported an all-in sustaining cost of just \$362 per ounce, a record low.

Despite weak gold prices, Goldcorp reported adjusted Q2 earnings of \$0.20 per share, way ahead of the \$0.14 expected by analysts.

#### 2. Smarter management

Goldcorp is proving that it is able to keep its ego in check and has changed its spendthrift ways.

When Goldcorp tried to buy Osisko Mining Corp earlier this year, it resisted the temptation to get into a bidding war with the eventual buyers, **Yamana Gold Inc.** ([TSX: YRI](#))([NYSE: AUJ](#)) and **Agnico Eagle Mines Ltd** ([TSX: AEM](#))([NYSE: AEM](#)).

It is easy for management to say that it will only buy good properties at reasonable prices, but actually *seeing* the company exercise the discipline to walk away from a deal it had initiated reassures investors that they can trust Goldcorp's management with their money.

There are a lot of opportunities for the gold majors to pick up very cheap prospects right now. While the Osisko property was attractive, other strategic assets are available.

### **3. Significant free cash flow**

Goldcorp is about to move from a capital-intensive period to one of expanding free cash flow. For instance, the company's long-awaited Cerro Negro property in Argentina is finally up and running.

Two other projects located in Canada will come online in the next 12-18 months. The Eleonore mine should begin production by January and the Cochenour mine is expected to be up and running by the end of 2015.

Moving forward, Goldcorp should start to generate some serious free cash flow beginning in 2015.

Goldcorp already has a monthly dividend of U.S.\$0.05, yielding about 2%. Investors should see a dividend hike next year and regular increases thereafter as the new projects ramp up production.

### **The bottom line**

Goldcorp Inc. is a much more efficient company than it used to be. At current gold prices, the company is profitable. For long-term investors who believe the price of gold will remain stable or move higher, now is a good time to invest in Goldcorp.

If the gold bugs are right and gold prices rally, the shares of Goldcorp will see a significant move to the upside.

If the price of gold stays flat, or even dips a bit, investors will still be paid a dividend and the shares should trend higher as a result of improved operational efficiencies.

## **CATEGORY**

1. Investing

## **TICKERS GLOBAL**

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. NYSE:AUY (Yamana Gold)
3. TSX:AEM (Agnico Eagle Mines Limited)
4. TSX:YRI (Yamana Gold)

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aswalker

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