



Can Goldcorp Inc.'s Stock Hit \$50?

Description

Gold companies are under considerable pressure right now as the price of the commodity continues to trend lower while investors brace for the Federal Reserve to start increasing its benchmark interest rate.

Gold is trading around \$1,215 per ounce; just above the \$1,200 per ounce price point that is a major tipping point for the industry as a whole — \$1,200 per ounce is well known as the “break-even” price point for most gold miners.

Many miners idled production months ago due to low gold prices and are instead using up their stockpiled ore rather than producing the metal for a loss. Unless gold gets some upside momentum in the future, the shutdowns are just starting.

One company's bad news is another's opportunity

These shutdowns are a negative for the miners they impact, but for those left standing they are a positive. One company that may be able to keep operations running longer than its peers is **Goldcorp Inc.** (TSX: G)(NYSE: GG).

Goldcorp is one of the lowest cost gold producers. In 2013, the company's all-in sustaining costs were \$1,031 per ounce. This means that even with gold trading near most miners' break-even point of \$1,200, Goldcorp can make a little bit of a profit.

As other miners are forced to mothball operations, the supply/demand fundamentals of the market will see a dramatic shift in balance. As these miners idle production, supplies will drop. As supplies drop and demand stays the same, the price increases as buyers compete to purchase from a smaller pool of saleable material.

In most industries, this scenario results in sellers coming back to market, but unfortunately when it comes to the mining industry, ramping up production is complex. It takes time and money to restart, and many miners will wait for relatively high and stable prices before coming back to market. Even when they make the decision to return, there will be a delay before they are back on line. In this time period, Goldcorp and other companies who have remained producing will be positioned to profit

handsomely.

There are often huge price upswings in the lag for new production to come online as panic spreads through buyers who are concerned they will not be able to get their hands on the supplies they need. In this panic, they are willing to fork over a large amount of money to secure supplies, driving up prices.

The correlation between gold price and Goldcorp's stock value

Goldcorp's stock is currently trading around \$24, more than half of the value it was when it peaked back in 2008. When Goldcorp's stock peaked, gold was trading at \$900 per ounce. The last time Goldcorp's stock traded around \$24, gold was selling for \$600 per ounce. Discounting other factors, this means that roughly a 33% increase in gold was responsible for the doubling of Goldcorp's stock.

This time around, a 33% increase in gold will take it up to about \$1,813 per ounce. While there are many factors that go into play other than gold's price to determine Goldcorp's stock value, all other things considered equal, this is the price that it will take.

In reality, it is probably a high estimate given that Goldcorp has taken the recent slide in gold prices as a reason to become more efficient, producing gold at a lower cost.

CATEGORY

1. Investing
2. Metals and Mining Stocks

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/06

Date Created

2014/09/29

Author

lklingel

default watermark

default watermark