



Is Goldcorp Inc. About to Launch a Takeover Bid?

Description

Many gold miners are struggling right now due to the low price of gold, but not **Goldcorp Inc.** (TSX:G)(NYSE:GG). Thanks to the company's status as a low-cost producer and its healthy bottom line following years of smart financial decisions, the company is arguably the most well positioned of the gold miners to ride out lower gold prices.

In fact, according to an interview with the *Financial Post*, Goldcorp CEO Chuck Jeannes said that: "We're a low cost producer and we've done most of the investing we need to secure our future. Building these new mines over the last four years, even if we see gold go down to US\$900 — which I don't think we will — we'd look for opportunities. Things come for sale at that price."

Is an acquisition in the works?

Earlier this year, Goldcorp launched a \$2.6 billion bid to buy **Osisko Mining Corp.** Goldcorp later sweetened that offer to \$3.6 billion, or \$7.65 per share, but in the end Goldcorp let that bid expire after **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) and **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM) offered \$3.9 billion, or \$8.15 per share. Goldcorp's reason not to hike the offer a second time was that it was not willing to "overpay" for Osisko.

Goldcorp's abandoned bid for Osisko has sparked plenty of rumours that the company is quietly looking for another takeover target, but according to commentary from the company, while it would be open to the right opportunity, it is not actively pursuing acquisitions.

Growth objectives

It is hard to argue with the strategy of a company that is being so successful in terms of operating costs. While acquisitions are a great way to grow production, they are only in the best interest of the acquiring company if these purchases come at a low price. If such an offer presents itself, Goldcorp could strike, but right now the company is growing its production internally despite some recent challenges

Goldcorp just achieved its first gold production at its Éléonore mine in Northern Quebec, a mine that

the company expects will produce 40,000-60,000 oz. this year, with production ramping up to 7,000 tonnes per day by 2018. The company also expects two more mines to come online over the next year, the Cerro Negro project in Argentina and the Cochenour project in Ontario.

On the negative side, the company is currently experiencing production challenges in Mexico that could result in actual gold production coming in at just one-third of the previously forecast range for this year. Goldcorp recently suspended operations at its Sauzal mine after instability in the pit wall, and said that it could take weeks or months to restart operations, and in the worst-case production will never be restarted because the mine is in the last year of its lifespan. As a result, Goldcorp is now forecasting that total 2104 gold production will be at the bottom end of its previous guidance of 2.95 million-3.1 million oz.

Is this reason to change course?

Declining production is a great motivator for miners to pursue acquisitions, but because Goldcorp's productions miss will only be a short-term squeeze, the only asset that would help would be a high-quality already-producing asset. There are only a few of these out there. One example is the Malartic Mine that came with Osisko Mining. With the production challenges only a short-term scenario, it makes perfect sense that Goldcorp is not actively pursuing a takeover just to bridge the gap, and is only interested in a really good deal on an asset that would be a strategic addition over the long term.

CATEGORY

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