



Is Goldcorp Inc. a Safe Investment?

Description

Goldcorp Inc. (TSX: G)(NYSE: GG) seems to be the favoured gold miner among analysts and investors alike thanks to the company's status as a low-cost, low-debt gold miner still advancing its production. On the surface it may seem like the company is absolutely a safe investment, but has all the interest turned Goldcorp into an overvalued stock?

Quantitative analysis

Certain metrics suggest that Goldcorp's stock is overvalued compared to some of its peers; however, in the case of Goldcorp I believe that it is misleading to put too much weight into quantitative metrics.

Quantitative analysis is not the be-all and end-all when it comes to determining what makes a good investment. If being a successful investor were as easy as doing a few calculations, buying an undervalued stock, and then making a profit, we would have a lot more stock market millionaires. The truth is many companies that are overvalued from a quantitative perspective continue to drive higher whereas many companies that appear undervalued see their stock value drop.

There are many reasons stocks can move higher despite indications that they are overvalued; often it relates to speculation that some future development will cause an appreciation in the company's stock value.

Goldcorp's competitive advantage

In the case of Goldcorp the stock is being pushed higher for a few reasons. For one, the company is a low-cost gold producer in a time when gold prices are getting low enough that high-cost producers may have to mothball operations. Another reason Goldcorp is an investor favourite right now is its history. Goldcorp's management has proven that it can consistently grow revenue while keeping costs down. Add to that the fact that Goldcorp's dividend yield is very high compared to its competition and you have a stock that is bound to garner a fair bit of attention.

Is more upside likely?

In order to justify a further increase in Goldcorp's stock, we have to determine whether the company can continue to grow its output while keeping its production costs low. Goldcorp has a bunch of development projects in the works around the globe, but some challenges this year mean that the company's production will likely fall at the low-end of guidance. These challenges are expected to be temporary and at the same time the company continues to cut costs, a positive for the longer-term outlook.

Another reason to believe in the company's future is the fact that Goldcorp is in the financial position to bid on other gold producers struggling with the low-price of gold. Goldcorp has said it would pursue "great" opportunities but the company is not actively pursuing acquisitions. Goldcorp must be confident in its production future to take this stance.

Goldcorp is a popular stock right now because of its status as low-cost producer and its history of growing production without breaking the bank. Even though some production challenges hit the company this year, they appear to have only a short-term impact and if production challenges were to become a problem the company could easily use its financial position to purchase a smaller, struggling gold miner. For those reasons the company appears to be a safe investment.

CATEGORY

1. Investing
2. Metals and Mining Stocks

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/07/01

Date Created

2014/10/16

Author

Iklingel

default watermark