



Is Goldcorp Inc.'s Dividend Sustainable?

Description

Goldcorp Inc. (TSX: G)(NYSE: GG) pays a high dividend compared to its competition, with the annual yield at 2.61%. For comparison, similar-sized gold miner **Barrick Gold Corp.**'s ([TSX: ABX](#))(NYSE: ABX) annual dividend yield is 1.43%. While analysts seem unanimously bullish on Goldcorp thanks to the company's status as a low-cost gold producer and its healthy balance sheet, will the slump in gold prices be enough to push the miner to cut its dividend in a cost-conserving strategy? Here, I outline the case.

Dividend history

Goldcorp currently pays a monthly dividend of US\$0.050 per share. The company has paid this dividend since 2013 — the prior dividend was US\$0.045. Goldcorp has never decreased its dividend, a very positive sign that it will continue to pay out at the current rate, or perhaps even higher.

Its dividend payout ratio is 69.8%, just below the 75% payout ratio generally determined as sustainable. I personally don't like looking at annual dividend yield and payout ratio alone to determine if a dividend is sustainable. A payout ratio uses net (adjusted) income in its calculation and because net income is adjusted, I don't think it is the best reflection of a company's actual cash flow.

I like to go one step further and divide dividends paid by operating income (non-adjusted). Operating income is a better reflection of the cash that a company can use to pay its bills before it takes write downs, which can at times be quite aggressive.

In terms of Goldcorp, by doing this for 2012 and 2013, we get a ratio of 18.2% and 18.1%, respectively. Therefore, in 2012 Goldcorp paid out just 18.2% of the cash it took from operating its business to pay dividends, a healthy level and enough to leave some room to increase dividends even if the company sees a drop in income.

Is a dividend hike likely?

Still, even though there is plenty of wiggle room in Goldcorp's budget to increase dividends, given how cost-conscious the company is, a drop in earnings would likely mean that the company would stand put on its dividend payout. So far this year, Goldcorp's earnings have been stellar thanks to cost-cutting

but recently the company hit a bit of a bump in the road in its production. Thanks to some challenges in Mexico, it is now forecasting production to fall at the low end of its guidance. From a longer-term viewpoint, however, production is expected to increase with some significant new projects coming online. Meanwhile, the company is seeing the fruits of its labour when it comes to cost reductions at its mines, so even despite a small dip in production, Goldcorp's earnings should fall in line for the year. The company's dividend, therefore, is definitely sustainable. In fact, the company might even be considering a dividend hike, though it may hold off a bit due to gold's price — a smart decision in my mind.

CATEGORY

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1. NYSE:B (Barrick Mining)
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