

Could Goldcorp Inc. Make a Play for Detour Gold Corporation?

Description

There is no denying that we are in a bear market for gold. The price continues to drop and with it, the valuations of many companies that are part of the sector. But it is during a bear market that some companies are able to take advantage and grow.

One company that might look to take advantage of this is **Goldcorp Inc.** (TSX: G)(NYSE: GG). During an interview with SpottGlobal, CEO Chuck Jeannes said, "The current market feels a lot like 1999-2000 and that was a time when the companies that had the ability to do so had fantastic opportunities to go out and acquire assets at deflated prices and build new companies." He then went on to add, "...I see this market as one of opportunity for a company like ours that has the balance sheet to do something."

So what does that mean?

If we read Jeannes' words correctly, it means the company is looking to start acquiring companies. Goldcorp is the most efficient gold producer in the world, which is why it is my favorite of the gold mines. While it had a relatively weak third quarter, if the price of gold returns to much higher levels, Goldcorp is in an incredible position to generate significant returns.

By purchasing smaller, weaker firms, Goldcorp can expand the amount of gold it produces as an investment for the future. The company clearly anticipates the price of gold to return to higher levels than where it is now, so it wants to buy when everyone else is afraid.

Which company could it buy?

For Goldcorp to be interested in buying a company, it's going to need to find one that actually moves the needle. A tiny mine that only gets 50,000 ounces of gold isn't going to do much for a firm that produces 3 million ounces. Therefore, I think the company will need to produce at least 300,000 ounces (10%) for it to be worthy of a purchase.

Detour Gold Corporation (TSX: DGC) is a company that has access to 29 million ounces of gold. Management believes that once it gets its operations up and running, it could get production to 700,000 ounces a year. Yet, the company is only valued at around \$1.5 billion.

The primary reason is its high production costs. However, one thing that Goldcorp excels at is reducing production costs; therefore, this acquisition would give the company access to plenty of gold and it's currently very cheap.

If you are unsure about the gold market, though, and want to add other companies to your portfolio, check out [this free report](#) on building an instant portfolio.

CATEGORY

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2. Metals and Mining Stocks

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Date

2025/08/04

Date Created

2014/11/28

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