The Stock Picker's Guide to Goldcorp Inc. for 2015

Description

Last year was not a particularly great one for **Goldcorp Inc** (TSX:G)(NYSE:GG) or its investors, with the shares down about 6%. Granted, the news could have been a lot worse – three of Goldcorp's large Canadian peers saw declines of 30% or more.

Of course the languishing gold price is mainly responsible – the price remains stuck around US$1,200 per ounce. But Goldcorp had its own share of problems, including some disappointing results at one of its Mexican mines.

But with the stock now trading just over $23 (as of this writing), should you buy Goldcorp as we head into 2015? Below we take a look.

A best-in-class company

When it comes to mining gold, few companies command as much respect as Goldcorp.

Part of this comes from its financial discipline. Unlike many other large gold producers, the company has not made any reckless acquisitions or had any operational disasters.

As a result, the company's balance sheet has remained in pristine shape, which has been an absolute blessing in this gold price environment. To illustrate, its net debt stands at roughly $2.6 billion as of September, only about 15% of the company's market value. By comparison, **Barrick Gold Corp** (TSX:ABX)(NYSE:ABX) has net debt of more than $10 billion, about two thirds of its market value.

Better yet, Goldcorp also is mining in very safe jurisdictions, with more than two-thirds of production coming from North America. Given what has happened to miners on other continents, this is a big plus for Goldcorp.

Its stock is trading well above its peers

Because of Goldcorp's prudence, as well as its reputation, its stock has not declined by very much, at least not relative to peers.

More specifically, the company's shares have declined by about 50% over the last three years. This sounds awful. But **Yamana Gold Inc** shares fell 61%, Barrick fell 74%, and **Kinross Gold Corporation** has fallen by more than 80% over the same timeframe.

Unfortunately, this also means that Goldcorp is more expensive than peers. To illustrate, the company is currently valued at about $21.7 billion (including debt), or $6,000 per ounce of gold production. Meanwhile, Barrick trades for only about $4,000 per ounce of gold production (again including debt). And Barrick's costs are actually lower than Goldcorp's.

This comparison isn't entirely fair – Goldcorp is still growing production, while Barrick's output has been shrinking. But the price difference is too great to ignore.

So should you own the stock?

If you're looking for exposure to the gold sector, and insist on holding top-quality stocks, then Goldcorp is certainly one to consider.

Otherwise, the shares should probably be avoided. It is clearly a very popular stock, and its share price reflects this. You'll probably find more upside in other gold companies – or by investing in gold itself.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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