



## Is Now the Time to Avoid Goldcorp Inc.?

### Description

The last year was a tough one for gold miners with the price of gold coming under immense pressure from a stronger U.S. economy and resurgent U.S. dollar. While the outlook for 2015 appears to be far brighter, investors are growing increasingly fearful the world's largest gold miner, **Goldcorp Inc.** (TSX:G)(NYSE:GG), will miss its 2014 guidance.

Already, Goldcorp has announced it will take a massive US\$2.3 billion to \$2.7 billion impairment charge on its Cerro Negro mine in Argentina. Much of this can be attributed to rising costs, import constraints, regulatory restrictions, and an increasingly weaker Argentine peso.

But while this may be a disappointing outcome for some analysts and investors, I believe it represents a positive for the company.

Let me explain why.

First, it is always good to see management of a company move quickly to accept cost blowouts and write down the value of projects on their books, where the economics have changed drastically.

This shows a degree of transparency that allows investors to fully understand the position of Goldcorp's balance sheet, particularly when many of these assets have goodwill structured into their valuation. A high degree of transparency concerning the valuation of projects is also important for investors in an industry where the ongoing volatility of gold prices and uncertainty over the direction of the global economy continues to create anxiety among investors.

Second and more importantly, commercial production at the Cerro Negro mine came online earlier this month and it is expected to grow exponentially, becoming a major generator of cash flow for Goldcorp.

Goldcorp has estimated that total 2015 production from Cerro Negro will reach 475,000 ounces this year, and that in later years as operations mature, that number will continue to grow. It is also expected to eventually be a relatively low-cost operation because of its high ore grades, which will also contribute to driving down all-in sustaining costs or AISCs.

This will see Goldcorp continue to grow gold production in 2015, with its bottom-end full-year guidance of 3.3 million ounces 15% higher than the record production achieved in 2014. It will also see Goldcorp well positioned to continue reducing AISCs, which for 2014 are expected to be \$950 per ounce or 8% lower than 2013 and to fall by a further 8% in 2015.

These AISCs are among some of the lowest of the major gold miners and leave Goldcorp well positioned to continue generating a healthy margin at the current gold price, particularly when its planned 9% increase in gold production is accounted for. This will allow it to take full advantage of the recent rebound in gold prices with the precious metal now trading at \$1,233 per ounce.

Finally and even more promising for Goldcorp and its investors, there are signs the gold price will continue to rebound over the course of the year, which should considerably boost for earnings.

Key drivers will be growing concern over the state of the economy in the Eurozone, a slowing China, and growing geopolitical uncertainty in the Middle East and the Ukraine. This will create renewed interest in safe haven assets, of which gold is the most widely recognised, pushing the price of gold higher.

While the impending impairment charge for Cerro Negro is a disappointing development, it certainly doesn't amount to a major calamity. By virtue of its solid balance sheet, reduced costs, and rising production, Goldcorp is well positioned to take advantage of the expected 2015 rebound in the price of gold.

## **CATEGORY**

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2. Metals and Mining Stocks

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## **Author**

mattsmith

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