



Why You Should Buy Goldcorp Inc. After Its Latest Move

Description

Last Monday, **Goldcorp Inc.** (TSX:G)(NYSE:GG) gave everyone a fresh reminder why it is Canada's best-in-class gold producer.

The company announced a \$526 million takeover of **Probe Mines Ltd.** ([TSXV:PRB](#)). The transaction will be paid for entirely with Goldcorp shares. In response, Probe shares jumped 49%.

But more importantly, this is a great move for Goldcorp. Below we take a look why, and then examine whether you should buy Goldcorp.

A great buy

When looking at the numbers, Goldcorp clearly got a great deal for Probe Mines. First of all, Goldcorp gets access to 1.6 million ounces of indicated resources, 0.4 million ounces of inferred resources, and various land holdings. Even though Probe's main asset — the Borden Gold Project — is not yet producing, it seems to be well worth the purchase price.

Better yet, the Borden project is located right next to Goldcorp's Porcupine operation. This will allow Goldcorp to use existing processing facilities at Borden, allowing the company to halve development costs.

This is a very small deal for Goldcorp, a company valued at over \$20 billion. But every little bit counts.

The flexibility

This transaction highlights one of Goldcorp's main advantages: the ability to make an acquisition without angering its shareholders. It's a luxury that other producers don't enjoy, thanks to reckless spending in past years.

For that very reason, this is a perfect time to be a buyer. With so many sellers like Probe, and so many companies refusing to buy, this is clearly a buyer's market. So Goldcorp's past prudence is a big advantage today.

One cause for concern

Relative to other gold producers, Goldcorp has a very clean balance sheet. It easily could have funded part of the transaction in cash, perhaps by borrowing some more money. But it did not do that. Instead, the company was willing to pay for the transaction entirely with shares. This sends a signal that Goldcorp's shares are expensive, and management knows it.

So should you buy shares of Goldcorp?

There's no denying that Goldcorp is a pricey stock. But the company has earned this premium, thanks to its strong track record. The company is also very well-positioned in today's marketplace, where acquisition opportunities are plentiful.

And when it comes to mining companies, it's very important to pick companies with a strong track record, even if it means paying a little more. After all, this is an industry where value is created and destroyed very quickly. If you don't pick the right management team, your money can fly out the window.

So with that in mind, Goldcorp is still a great way to bet on the gold price.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSXV:PRB (Probe Gold)

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