

Why Are Goldcorp Inc. Shares Plummeting?

Description

Today, gold miner **Goldcorp Inc.** (TSX:G)(NYSE:GG) announced results for the fourth quarter of 2014, and also provided guidance for this year. Overall, analysts and investors were not impressed – the company's stock is down by nearly 8% in response, as of this writing.

So what exactly is it that investors are reacting to? And were the results really that bad? Most importantly, does this represent an opportunity to buy Goldcorp shares? Below we take a look.

Some big red numbers

Investors could be forgiven for selling Goldcorp shares today. The company posted a net loss of US\$2.4 billion in the fourth quarter, or nearly US\$3 per share. This was mainly due to a US\$2.3 billion writedown at Cerro Negro, Goldcorp's new mine in Argentina.

This big writedown was no surprise — Goldcorp said last month that this would likely happen. But even when stripping out that writedown, adjusted profit totaled only US\$0.07 per share, well below analyst estimates of US\$0.12. This was mainly due to higher costs; all-in sustaining costs totaled US\$1,035 per ounce, much higher than the US\$810 per ounce posted last year.

This was not the first time Goldcorp posted higher-than-expected cost numbers for the year 2014. And that has not been good for the company's share price. Remember, Goldcorp is the most respected senior gold producer, so any poor numbers are bound to catch people by surprise.

Still is a great position

Beneath the surface, you can see why Goldcorp is still considered a top-tier gold company. Production increased by 16% last quarter, and reached a record 2.87 million ounces for 2014. The company also hopes to grow production by about 20% in 2015, while bringing costs down to around US\$900 per ounce.

Better yet, Goldcorp still has an incredibly strong balance sheet, with only about US\$3.5 billion in debt. Just to compare, this is about US\$10 billion less than **Barrick Gold Corp.** Goldcorp can thus afford to buy more mines, a big plus in today's market, where mining assets are being sold for cheap prices. Meanwhile, Barrick has announced that two of its mines are up for sale.

So are the shares worth buying?

If you're planning on buying a gold company, Goldcorp should certainly be near the top of your list. The company has a fantastic track record and is in a strong financial position, both of which are essential with gold prices so low.

That being said, Goldcorp also trades at a big premium to other miners, even after the share price drop on Thursday. So if the company continues to struggle, and the lustre continues to wear off, the shares could plummet. If you're looking to bet on the gold price, an ETF is likely your best option.

CATEGORY

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