5 Reasons to Buy Goldcorp Inc. Today

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) has dropped more than 20% in the past two months, but a strong reversal could be in the works.

Let's take a look at the current situation to see if Goldcorp deserves to be in your portfolio.

1. Gold price momentum

The price of gold has been on a real rollercoaster ride over the past six months. After bottoming out around US$1,140 per ounce in early November, the precious metal rallied all the way back to $1,300. Investors thought they were off to the races, but the surge proved to be a false start and bullion bulls cried the whole way back down to $1,150.

In the past two weeks the price has regained the $1,200 mark and gold bulls are calling for a new rally. This time they could be right.

2. Safe haven appeal and store of value

Shelter seekers are piling back into gold as the planet we live on looks more and more like it is ready to implode. Conflict in the Middle East is escalating to frightening levels, and Greece looks destined for an ugly exit from the euro. These are the headline grabbers, but some of the world's best number crunchers are also closely watching China's property bubble and the spillover effects of declining oil prices.

At the same time, currencies around the globe are in a free fall against the U.S. dollar. Part of the slide is a flight to safety, but there is also a broad-based move by central banks to stave off deflation and jump-start lagging economies. In just the past 12 months, the euro is down 20%, the Japanese yen is off 14%, and the Brazilian real has depreciated almost 30%. Even Canadian snowbirds have watched in horror as their favourite winter getaway has jumped in price by more than 20% in the past two years. Once the U.S. begins to increase interest rates, the downward trend could pick up steam. Owning gold is one way to protect value in this environment.

That's the outlook for gold, but what about Goldcorp?

3. Production gains

Goldcorp produced a record 2.87 million ounces of gold in 2014 and the company expects to see that number come in as high as 3.6 million ounces in 2015 as output ramps up at new mines. In fact, Goldcorp is forecasting more than 300,000 ounces of production just from its Éléonore mine, which is now in commercial production.

4. Cost controls

Goldcorp delivered all-in-sustaining costs of $949 per ounce in 2014 and expects the 2015 number to come in at $875-950 per ounce. Capital expenditures are budgeted for $1.2-1.4 billion this year compared to $2.2 billion in 2014.

5. Strong balance sheet

Goldcorp finished 2014 with $482 million in cash and cash equivalents and another $1.16 billion available in undrawn facilities. Long-term debt as of December 31 was $3.4 billion.

Should you buy?

Goldcorp trades at 0.9 times book value, which is significantly lower than its five-year average of 1.5.

The stock pays a dividend of US$0.60 per share that yields about 3.2%. The reduced capital expenditures and positive production outlook should mean the distribution is very safe. If gold prices drift higher, investors might even see a dividend increase this year.

Investing in Goldcorp requires a belief that gold prices are going to improve. If you are in the bull camp, this is a good time to pick up the stock.

CATEGORY

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2. Metals and Mining Stocks

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