Should Dividend Investors Buy Goldcorp Inc.?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) isn't usually the first name that comes to mind when investors start looking for dividend stocks.

The gold miner is normally picked as a way to play a rise in precious metals prices, but the company also pays a monthly distribution that currently offers shareholders a 3% yield.

Let's take a look at Goldcorp to see if it should be in your portfolio.

Dividend growth

Goldcorp actually has a solid history of dividend growth. In the past five years the annualized distribution has more than tripled from US$0.18 per share to the current payout US$0.60 per share.

Higher production

Goldcorp produced a record 2.87 million ounces of gold in 2014 and the figure for 2015 could be as high as 3.6 million ounces. The rise is attributed to output coming from new mines. For example, the company expects its Éléonore facility to churn out 300,000 ounces this year as the mine ramps up commercial production.

Efficient operations and lower capital expenditures

Dividend investors like higher production because that translates into better revenue streams when prices are stable or move higher. The second half of the equation is expenses and capital outlays.

Goldcorp plans to spend US$1.2-1.4 billion on capital projects in 2015 compared with $2.2 billion last year. That translates into at least $800 million in extra cash flow that can be used to either pay down debt or increase the dividend.

On the expense side, the company had all-in-sustaining costs (AISC) of US$949 per ounce in 2014 and that number is expected remain flat or even drop through 2015.

Balance sheet stability

Gold companies are notorious for carrying too much debt, but Goldcorp is actually in good shape compared with a number of its peers. The company finished 2014 with just US$3.4 billion in long-term debt. That's not bad for a company with a market cap of about US$16.5 billion.

Goldcorp also ended the year with nearly $500 million in cash and cash equivalents and $1.16 billion in undrawn credit facilities.

Should you buy Goldcorp?

As a dividend investment, you can make a solid case for owning the stock and shareholders might even see an increase to the payout this year as capital costs come down and production rises.

Buying the company requires a belief in the long-term precious metals story, and the past few years have not been great for gold bulls. However, if you fall in the pro-gold camp, the 3% dividend is not too shabby while you wait for better times.

CATEGORY

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