3 Reasons Why Goldcorp Inc.'s 3.6% Dividend Is Perfectly Safe

Description

For years **Goldcorp Inc.** (TSX:G)(NYSE:GG) was one of the most respected companies in its industry. Unlike its competitors, the company remained disciplined as gold prices rose. As a result, the company wasn't hurt so much by falling gold prices. Investors rewarded the company; based on practically every metric, Goldcorp traded at a premium to its competitors.

But now the lustre has started to come off. The company experienced some operational issues last year, particularly in Mexico, which led to some missed expectations. The stock price has been hammered as a result, falling by about a third. Gold prices have fallen by only 7% over this time.

Most recently, Stephen Walker of RBC Capital Markets downgraded Goldcorp to market perform, and even claimed the dividend could be in danger.

There were a number of reasons he made this claim. Goldcorp's "net free cash break-even point" is US$1,175 per ounce, which is barely below the current gold price. So, if the gold price falls, or if Goldcorp fails to meet guidance, then the dividend payment will become difficult. A big acquisition could put the company under further strain.

But make no mistake. If you're looking for solid dividends, Goldcorp is still likely one of the best stocks to buy in its industry. Below are three reasons why.

1. A strong balance sheet

Goldcorp currently has just over US$3.5 billion in net debt, not a big number for a company worth US$13.6 billion in the open market. So, Goldcorp could easily borrow more money if it needed to. The company is a long way from being financially strained.

Mr. Walker rightly points out that a big acquisition could change all this. And Goldcorp isn't afraid of a big purchase. Remember, the company started a bidding war last year for Osisko Mining. That being the case, it's highly unlikely that Goldcorp would make any acquisition that would threaten its dividend.

2. Responsible management

Goldcorp may have had its struggles recently, but one must not forget this is a very responsible company, with prudent management. Even when bidding for Osisko last year, Goldcorp was unwilling to overpay, and lost the bidding war as a result.

3. Other companies will falter first

Let’s say that gold prices do fall. Goldcorp would certainly be affected, but so would its competitors. And many of these competitors have higher costs and worse balance sheets. Thus we’d likely see some of Goldcorp’s competitors go bankrupt in this scenario, causing a disruption to supply. It would also allow Goldcorp to pick up some assets for pennies on the dollar.

So, if you’re looking to bet on gold, then Goldcorp remains a good option. After all, you’d be able to collect a safe monthly dividend—yielding 3.6%—while you wait.

CATEGORY

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