



Goldcorp Inc.: Should You Buy This Stock for the Dividend?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) doesn't normally turn up on the radar of income investors, but the company actually has strong history of dividend growth. In fact, the distribution has more than tripled in the past five years.

The recent rout in the gold space has pushed the yield up to 4.6%, and investors are now wondering if the winning streak of payout increases will come to an end.

Let's take a look at the current situation to see if Goldcorp will hold the line on its monthly dividend.

Production growth

Goldcorp produced a record 2.87 million ounces of gold in 2014 and the company expects output to be as high as 3.6 million ounces in 2015. The increase is due to production coming from new mines.

Higher production should help offset lower market prices and mitigate the impact on cash flow.

Cost reductions

On the expense side of the story, Goldcorp is planning to spend a lot less money in 2015 than it did last year. Guidance for capital expenditures sits at US\$1.2-1.4 billion. That is much less than the \$2.2 billion the company spent in 2014.

The main reason for the reduction is the transition of two major projects from development to commercial production.

All-in-sustaining costs came in at \$US949 per ounce in 2014 and the 2015 number is expected to be about the same or slightly lower.

Balance sheet

Cash is king when it comes to maintaining the dividend through tough times in the gold market.

Goldcorp finished Q1 with cash and cash equivalents of \$US365 million. In June the company increased its credit facility from \$2 billion to \$3 billion.

With only \$3.4 billion in long-term debt on its balance sheet, Goldcorp is still in good shape.

Is the dividend safe?

Gold prices are now trading below \$1,100 per ounce, which means Goldcorp is still making money, but the margins are getting tight.

The company has adequate cash available and the increase in production will help make up for lower prices.

If gold remains at current levels for the next five or six months, the company might decide to trim the payout in 2016, but the dividend should be safe for the rest of this year.

Should you buy?

Goldcorp is currently trading at just 0.6 times book value compared with its five-year average of 1.5 times.

If you believe gold prices are bottoming, Goldcorp is an attractive pick right now and offers some serious upside potential, but more volatility is likely in the short term. Investors should consider the dividend as a bonus when evaluating the stock.

New investors might want to wait for the Q2 numbers to come out on July 30 before stepping in.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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