



Is Goldcorp Inc. the Top Turnaround Stock in the Gold Industry?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG), one of world's largest producers of gold, announced second-quarter earnings results before the market opened on July 30, and its stock responded by falling over 1% in the day's trading session. The stock now sits more than 49% below its 52-week high of \$32.32 reached back in August 2014, so let's take a closer look at the results to determine if the stock is a turnaround play, or if we should avoid it indefinitely.

The results that sent its shares lower

Here's a summary of Goldcorp's second-quarter earnings results compared with its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q2 2015	Q2 2014
Adjusted Earnings Per Share	\$0.08	\$0.20
Adjusted Revenue	\$1.32 billion	\$1.12 billion

Source: Goldcorp Inc.

Goldcorp's adjusted earnings per share decreased 60% and its adjusted revenue increased 18% compared with the second quarter of fiscal 2014. Its steep decline in earnings per share can be attributed to its adjusted net income decreasing 60.4% to \$65 million, which the company noted was a result of "lower realized margins on gold and by-product metal sales...higher production costs...[and] higher depreciation and depletion expenses."

Its very strong revenue growth can be attributed to its increased sales volumes, including its gold sales increasing 41.2% to 903,000 ounces and its silver sales increasing 10% to 10.79 million ounces, which more than offset the negative impact of its average realized gold price decreasing 8.3% to \$1,189 per ounce and its average realized silver price decreasing 17.5% to \$14 per ounce.

Here's a quick breakdown of 14 other notable statistics from the report compared with the year-ago period:

1. Gold production increased 40% to a record 908,000 ounces
2. Silver production increased 6.4% to 10.43 million ounces
3. Copper production decreased 55.4% to 8.6 million pounds
4. Copper sold decreased 64.6% to 4.6 million pounds
5. Average realized copper price decreased 21.2% to \$2.67 per pound
6. Lead production increased 23.1% to 47.5 million pounds
7. Lead sold increased 11.6% to 48.2 million pounds
8. Average realized lead price decreased 11.3% to \$0.86 per pound
9. Zinc production increased 14.8% to 105.5 million pounds
10. Zinc sold increased 15.5% to 88.9 million pounds
11. Average realized zinc price decreased 1% to \$0.99 per pound
12. Adjusted operating cash flows decreased 4.8% to \$358 million
13. Reported free cash flow of \$174 million, compared to a cash use of \$240 million in the year-ago period
14. Weighted average number of shares outstanding increased 2.1% to 829.99 million

On a very sour note, Goldcorp went on to announce a 60% reduction to its monthly dividend to \$0.02 per share, and this will be effective as of August 1.

Should you buy Goldcorp?

It was a solid quarter overall for Goldcorp, but its dividend reduction put a damper on the results, so I think the drop in its stock was warranted. With this being said, I think the stock represents a great long-term investment opportunity today because it trades at favourable forward valuations, including just 26.5 times fiscal 2016's estimated earnings per share of \$0.62, which is inexpensive given its five-year average price-to-earnings multiple of 28.5 and its long-term growth potential.

With all of the information provided above in mind, I think Goldcorp is one of the top turnaround plays in the gold industry today. Foolish investors should strongly consider beginning to scale in to long-term positions over the next couple of trading sessions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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