

## Goldcorp Inc.: Is the Company Building an Acquisition War Chest?

### Description

Last week I wrote an article suggesting **Goldcorp Inc.** (TSX:G)(NYSE:GG) could maintain its juicy dividend through the end of the year.

The next day, management slashed the payout by 60%, despite reporting strong Q2 2015 results that indicated the company was under no pressure to reduce the distribution.

Most analysts expected the cut. I thought Goldcorp would hold off another quarter or two.

### Solid results and adequate free cash flow

Goldcorp delivered record second-quarter gold production of 908,000 ounces, a 40% increase over the same period last year. Adjusted operating cash flow was US\$358 million in the quarter. Free cash flow for the quarter was US\$174 million before paying the dividend and US\$50 after dividends.

That's hardly the type of earnings report that forces management teams to go into panic mode.

### Why did Goldcorp act?

Gold prices have been on a nasty slide in recent weeks, and now trade below US\$1,100 per ounce. Most predictions in the market are for continued weakness in the precious metals sector.

Goldcorp might be taking a cautious approach given the current market conditions, but I think the company is building up a war chest to make acquisitions.

During the second quarter, Goldcorp sold its 26% interest in **Tahoe Resources** for \$998.5 million and raised its credit facility by US\$1 billion.

The dividend cut will preserve another US\$124 million per quarter.

With most of its peers up against the ropes, Goldcorp is in a position to acquire prime properties at very reasonable prices. Competition for top assets should be limited because most companies don't have the balance sheet strength to go on a buying binge.

Goldcorp finished Q2 with cash and short-term investments of US\$994 million and only US\$3.36 billion in long-term debt. This means management has the flexibility to do a significant deal while valuations in the sector are still attractive.

### Should you buy Goldcorp?

Production for 2015 is expected to be near the top end of guidance and projections for all-in-sustaining costs have been reduced to US\$850-900 per ounce from previous expectations of US\$875-950 per ounce.

The stock currently trades at just 0.6 times book value and 19.3 times forward earnings, which are appealing metrics compared with the five-year averages.

If you are a gold bull, Goldcorp is a solid bet right now. Any recovery in gold prices could send the stock significantly higher, especially considering the size of the sell-off.

Weaker gold prices will certainly put more pressure on the stock, but the upside potential probably outweighs the downside risk at this point.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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