



## Goldcorp Inc.: Is it Time to Buy?

### Description

Shares of **Goldcorp Inc.** (TSX:G)(NYSE:GG) are down more than 50% in the past five years and currently trade at levels not seen for more than a decade.

Most investors are giving the entire bullion sector a wide berth, and there is good reason to do so, but contrarian types are starting to kick the tires on the sector's top names.

Let's take a Goldcorp to see if it deserves to be one of your contrarian picks right now.

### Production

Goldcorp delivered record second-quarter production of 908,000 ounces, a 40% increase over the same period last year.

The company is ramping up output at new mines, and investors should see strong production growth continue for the next few years.

The company's Eleonore mine began commercial production in April of this year and is expected to deliver 250,000-270,000 ounces of gold in 2015. The company recently reduced the 2015 guidance at Eleonore by 15% due to unexpected complications, but the long-term scope of the project still looks good.

Eleonore has reserves of 4.97 million ounces and the company believes that number will grow as it continues to explore the deposit.

Despite the hiccup at Eleonore, Goldcorp is maintaining its overall 2015 production guidance of 3.3-3.6 million ounces.

### Operating costs

Goldcorp is targeting all-in-sustaining costs of US\$850-900 per ounce this year. The company is making good progress on its cost-reduction efforts and is still profitable at current gold prices.

## Balance sheet

Cash is king right now in the gold business and Goldcorp is sitting on a lot of it. The company finished Q2 with cash and short-term investments of US\$994 million.

Management also raised its credit facility in Q2 by US\$1 billion, and decided to cut its dividend by 60%. The reduction in the distribution will save another US\$124 million per quarter.

Goldcorp has \$US3.6 billion in long-term debt, which is very low compared with some of its peers, and means the company has a lot of flexibility to acquire distressed assets.

## Cash flow

Goldcorp had adjusted operating cash flow of US\$358 million in Q2 and free cash flow of US\$174 million. As production ramps up and capex comes down, investors should see free cash flow numbers grow in the coming quarters.

## Capital expenditures

The company expects to spend \$1.2-1.4 billion in 2015, down significantly from \$2.2 billion last year. The lower capital costs are due to the switch of Eleonore and other projects from the development stage to production. This is good news for investors because it means more funds will be available to pay down debt or make acquisitions.

## Should you buy Goldcorp?

At the end of the day, the price of gold determines the fate of the gold miners. If you are a long-term bullion bull, Goldcorp is well positioned to buy up quality assets while the market is down, and should perform extremely well when gold prices begin to rise again.

At this point, many analysts believe the market is close to a bottom. If that's the case, it might be worth taking a small contrarian position in the stock.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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