



Has Goldcorp Inc. Finally Bottomed Out?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) is often cited as the top pick in what has been a very disappointing sector.

Since gold peaked back in September 2011, Goldcorp's shares have fallen from \$50 to a recent low of about \$16 per share. That isn't very encouraging, but the past few days have seen the stock catch a bit of a tailwind, and investors are wondering if this could be the start of a much bigger move.

Let's take a look at Goldcorp to see if it should be in your portfolio right now.

Gold production

In its Q2 earnings statement, Goldcorp announced record production on 908,000 ounces, a 40% jump over Q2 2014. Output is ramping up at the new Eleonore and Cerro Negro mines, and the company is on target to meet its 2015 production guidance of 3.3-3.6 million ounces, despite some recent hiccups.

Eleonore began commercial production in April and should deliver 250,000-270,000 ounces by year-end. The mine ran into operational issues in the last couple of months, which forced management to drop the production target by 15%. This is par for the course in the mining business, and investors shouldn't be overly concerned unless the situation starts to occur more frequently.

Cerro Negro began commercial production in January and is expected to produce 425,000-475,000 ounces in 2015. Goldcorp acquired the mine in 2010 and the known resources have nearly doubled since that time. Work was recently halted for a few days, but that shouldn't have a large impact on guidance for the year.

Production costs

Goldcorp expects 2015 all-in-sustaining costs to be US\$850-900 per ounce. The company continues to improve efficiency, and operating costs per ounce should come down as the new mines move toward capacity production.

Financial strength

Goldcorp has a reasonably strong balance sheet in a sector where many companies are struggling with heavy debt loads.

At the end of Q2, long-term debt was \$US3.6 billion and Goldcorp finished the quarter with just under US\$1 billion in cash and cash equivalents. Management also has US\$2.2 billion in undrawn credit facilities at its disposal.

This is important because Goldcorp isn't under pressure to unload assets to pay down debt, and has the flexibility to pick up strategic properties that might become available.

Cash flow

Goldcorp delivered operating cash flow of \$528 million and adjusted net earnings of \$65 million in the second quarter. Free cash flow was \$174 million.

Despite the solid results, Goldcorp decided to cut its dividend by 60%. The monthly payout is now US\$0.02 per share.

Investors were not happy with the distribution cut, but the move was prudent given the market conditions. Goldcorp can now use the extra cash to pay down debt or build up its acquisition fund.

Should you buy Goldcorp?

Gold prices have been rising over the past few days as the market adjusts to a weak employment report in the United States. The news has pundits re-evaluating the timing for a key interest rate increase, and that is bringing buyers back into the bullion market.

If the negative economic indicators continue, we could be in for a strong move in gold, and Goldcorp will certainly benefit. Gold bugs might want to start wading in to get ahead of the curve.

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Date

2025/08/04

Date Created

2015/10/06

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