

Goldcorp Inc. Tanks 10% After its Q3 Release: What Should You Do Now?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG), one of world's largest producers of gold and silver, announced mixed third-quarter earnings results before the market opened on October 29, and its stock responded by falling over 10% in the trading session that followed. The company's stock now sits more than 47% below its 52-week high of \$25 reached back in January, so let's take a closer look at the results to determine if this sell-off represents a long-term buying opportunity or a major warning sign.

The results that ignited the sell-off

Here's a summary of Goldcorp's third-quarter earnings results compared with what analysts had expected and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Q3 2015 Actual	Q3 2015 Expected	Q3 2014 Actual
Adjusted Earnings Per Share	(\$0.04)	\$0.04	\$0.09
Revenue	\$1.10 billion	\$1.05 billion	\$839 million

Source: *Financial Times*

In the third quarter of fiscal 2015, Goldcorp reported an adjusted net loss of \$37 million, or \$0.04 per share, compared to an adjusted profit of \$70 million, or \$0.09 per share, in the same period a year ago, as its revenues increased 30.9% year over year to \$1.1 billion. The company's steep decline in net income can be partially attributed to its mine operating costs increasing 48.8% to \$1.05 billion, as well as its weighted-average number of shares outstanding increasing 2% to 830.2 million.

Its very strong revenue growth can be attributed to higher sales volumes, including its gold sales increasing 47% to 942,600 ounces and its silver sales increasing 30.5% to 11.04 million ounces, and this more than offset the negative impact of lower gold and silver prices.

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

1. Gold production increased 41.5% to 922,200 ounces
2. Averaged realized gold price decreased 12% to \$1,114
3. Silver production increased 44.8% to 11.31 million ounces
4. Average realized silver price decreased 17.2% to \$13.01
5. All-in sustaining costs per ounce of gold decreased 20.5% to \$848
6. Adjusted operating cash flows decreased 6.3% to \$374 million
7. Reported free cash flow of \$243 million, compared to a cash use of \$355 million in the year-ago period
8. Earnings from mine operations decreased 65.2% to \$46 million

Should you buy in to or avoid the sell-off?

It was a weak quarter overall for Goldcorp, but I think the sell-off was a bit overdone at more than 10%. With this being said, I think the downside will be minimal from here and the stock represents an attractive long-term investment opportunity, because it now trades at a mere 0.64 times its book value per share of \$20.57, which is very inexpensive compared with its five-year average price-to-book multiple of 1.32.

At the very least, I think Goldcorp's stock will trade at three-quarters of its book value per share within the next three months, which would place its shares around \$15.50, and this represents upside of more than 17% from today's levels. In the long term, I think its stock will trade at or above its book value, and although this number will change each quarter, it represents upside of more than 56% from current levels.

With all of the information provided above in mind, I think Foolish investors should consider using the post-earnings weakness in Goldcorp's shares to begin scaling in to long-term positions.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date

2025/08/04

Date Created

2015/10/30

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