

## Is Goldcorp Inc. Still a Good Investment?

### Description

Gold prices are dropping again.

The 10 ounce price for the precious metal has dipped once again below US\$1,100 per ounce, triggering a flurry of buy and sell targets for investors. Gold producers in particular get squeezed for every penny in a drop in price as operational and staffing cuts can only go so far in stemming losses.

As one of the largest producers in the world, **Goldcorp Inc.** (TSX:G)(NYSE:GG) has a large portfolio of mines across North, South and Central America.

Goldcorp recently announced quarterly results that did not meet analysts' expectations, which resulted in the stock price dropping significantly.

Let's take a look at those results as well as what this means for Goldcorp as an investment opportunity.

### Goldcorp's quarterly report was disappointing

In the most recent quarter, the company disappointed investors. It posted a net loss of \$192 million, or \$0.23 per share. For the same quarter last year, Goldcorp posted a \$44 million loss, a loss of \$0.05 per share. Analysts believed that Goldcorp would post a \$0.04 per share profit.

Gold production was up, hitting a record 922,200 ounces in the quarter, which was an increase from the 651,700 reported previously. Despite the increase in production, the net loss was the main driver behind the sell-off that ensued, which brought the stock down to \$15.58. The stock has dropped over 23% in the past month.

From a dividend standpoint, Goldcorp slashed its dividend by 60% earlier this year, noting that the company would use funds to bolster its financial position given the volatile gold market.

### Goldcorp's advantages over rivals

Goldcorp has one significant advantage over competitors, and that is the efficiency of operations. Since the magnificent drop in gold in 2011 from nearly US\$2,000 per ounce, Goldcorp has managed to become very efficient at keeping costs down. In fact, it has become the benchmark for other companies.

Goldcorp's price of producing an ounce of gold, as per the most recent quarter, is \$848, which is well below the price of an ounce of gold and far below the figure it was last year (\$1,066). This can be seen as one of two bright points in the quarterly report, because even with significantly lower gold prices operations can still be profitable.

The other bright spot in the earnings report was how Goldcorp come out on top over rivals in terms of debt. During the quarter Goldcorp noted that the company has now fully repaid its revolving credit

facility, resulting in approximately US\$3.3 billion in liquidity. The company also has over US\$240 million in free cash flow.

While the recent drop in price has brought Goldcorp down to bargain-price levels, in my opinion, the stock is too risky for new investors to take a position in at the moment.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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