



Could Goldcorp Inc. Rally in 2016?

Description

Gold miners really took it on the chin this year, and investors are wondering if 2016 could finally be the year that gold rebounds.

With the Fed now raising rates, you might think gold is headed for more pain, and it certainly could be, but support in the past few trading sessions suggests that not everyone in the market thinks so.

Goldcorp Inc. (TSX:G)(NYSE:GG) is often cited as the go-to stock in the sector. Let's take a look at the current situation to see if the company could be poised for a rally next year.

Production

Goldcorp reported Q3 2015 production of 922,200 ounces, up 42% from the same period last year. The strong growth is the result of new mines coming online after several years of heavy investment. Production for 2015 is expected to be at the high end of the guidance for 3.3-3.6 million gold equivalent ounces.

The company's Eleonore and Cerro Negro properties went into commercial production in 2015 and are still ramping up to their design capacity. The facilities hit a few speed bumps this year, which is par for the course in the industry, but the shift from development to production is significant for Goldcorp's investors.

As production increases, costs should continue to come down. Goldcorp said Q3 2015 all-in-sustaining costs came in at US\$848 per gold equivalent ounce, down significantly from US\$1,066 per ounce in Q3 2014.

Balance sheet and cash flow

Goldcorp's balance sheet is in good shape. The company finished Q3 with long-term debt of just US\$2.5 billion and held US\$330 million in cash, cash equivalents, and money-market holdings.

The firm also has US\$3 billion in credit lines available.

Free cash flow for Q3 was US\$243 million, a nice turnaround from the previous year when the company reported a negative number. The change comes as a result of higher production and lower capital spending.

Should you buy Goldcorp?

With much of the major investment on new mines now behind it, Goldcorp is in a position to generate solid free cash flow in the coming years. If gold prices firm up, the increase could be significant.

Forecasts for the price of gold in 2016 are all over the map, so more volatility should be expected. I wouldn't back up the truck just yet, but contrarian types who think gold is near a bottom might want to start a small position in the stock.

If gold takes off in 2016, Goldcorp will certainly move with it.

CATEGORY

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