What to Expect From Goldcorp Inc. in 2016

Description

After a pretty tough year in 2015, **Goldcorp Inc.** (TSX:G)(NYSE:GG) investors are hoping for a much better showing in 2016. Thankfully, there is reason to be optimistic because the company does have a couple of key catalysts on the horizon that could drive a rebound in the stock price.

A change at the top

Earlier this month the company announced that CEO Chuck Jeanes will retire in April and be replaced by current **HudBay Minerals Inc.** CEO David Garofalo. A 25-year veteran of the natural resources sector, Garofalo has been the CEO at HudBay since 2010. He's leaving after having transformed the company from one that lacked a clear strategy to a much more focused company.

While Garofalo is inheriting a solid company, Goldcorp does have its challenges. Topping that list is a clearly defined path to grow the company beyond 2017 when its production is expected to peak and then decline.

A move toward M&A

While Goldcorp does have its share of organic growth projects in the pipeline, it could turn to M&A to jumpstart its post-2017 growth. It set itself up well to capture M&A opportunities by bolstering its balance sheet in 2015.

After selling its stake in **Tahoe Resources Inc.** for nearly $1 billion, the company was able to reduce its debt substantially. It now has the second-lowest net debt ratio among its peer group. Further, after receiving a $1 billion increase to its credit facility, Goldcorp has total liquidity of $3.3 billion that it could use to fund a deal.

Better cash flow

Goldcorp has absolutely no control over the main driver of its cash flow, which is the price of gold. That said, it does control its costs, which have been trending down in recent years.

One of the biggest drivers of its costs have been major capital projects, which have been driving its robust production growth. However, with many of those projects now producing, the company’s capex spending has fallen from about $2.4 billion per year to closer to $1.3 billion, with its sustaining capex in the $875 million to $1.025 billion range. That extra billion dollars per year, give or take for the price of gold, will give the company more financial flexibility than in prior years.

In addition to that, the company’s newer mines have lower all-in sustaining costs (AISC). This has driven the company’s AISC from $1,031 per ounce in 2013 down to $848 per ounce last quarter. If the company can deliver further improvement in that number in 2016, it will help the company offset currently weak gold prices.

Investor takeaway

After a tough year in 2015, investors are hoping for a rebound in 2016.

While a rising price of gold would certainly drive the stock higher this year, the company does have a few catalysts of its own. A fresh vision from its new CEO could excite investors, especially if it includes a large-scale M&A transaction.

Meanwhile, falling costs due to lower capex and better cost management could improve cash flow, which could go a long way in offsetting some of the gold-price weakness.

Clearly, there are reasons to be optimistic that 2016 could be a bounce-back year for Goldcorp.

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mdilallo