

Goldcorp Inc.: Should You Buy This Stock Today?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) didn't start 2016 as a top pick for most investors, but that situation might begin to change.

Here's why.

A bullion rally?

Few people expected 2016 to start with a market crash and a gold rally, but that's exactly what has happened.

Weak data out of China has analysts wondering if the cause is a struggling U.S. economy. If this turns out to be true the Fed could slow down or even hit the pause button on its stream of interest rate hikes.

That would put a tailwind behind the price of gold because the market currently expects another two to four rate increases this year.

Geopolitical tensions are also sending investors back into safe-haven assets. The war of words between Saudi Arabia and Iran has pundits worried that an escalation of the dispute could expand conflict in the Middle East.

At the same time, North Korea just shocked the globe with a claim that it has successfully developed and tested a hydrogen bomb.

The gold market has been relatively unaffected by global tensions in recent years, but this new wave of threats might finally tip the scale.

There is no guarantee a big bullion rally is in the works, but the spark has certainly been lit.

Goldcorp's appeal

Goldcorp has historically been the go-to stock for investors in the gold space. The shine has come off the company a bit in the past couple of years, but the stock is worth keeping an eye on.

Production is growing at a steady pace as new developments, such as the Eleonore and Cerro Negro assets, ramp up operations. With most of the big investments behind it, Goldcorp is well positioned to benefit from a surge in bullion prices.

Output in Q3 2015 was 42% higher than the same period the year before, and production in 2016 should rise as the new mines move toward full capacity.

As output increases, the company's all-in sustaining costs (AISC) should continue to fall. AISC in Q3 2015 came in at US\$848 per gold equivalent ounce, down from \$1,066 in Q3 2014.

Free cash flow in Q3 was US\$243 million. As capital costs come down and production increases, investors could see a surge in free cash flow in 2016.

How much?

Goldcorp produces about 3.5 million gold equivalent ounces per year, so a US\$100 rise in the average gold price would add US\$350 million in cash to the coffers.

Should you buy?

Gold prices are still low and the latest rally might fizzle out, but the recent surge is an indication of how quickly the market can change. If you believe bullion has bottomed, it might be a good time to start adding a bit of Goldcorp to your portfolio.

CATEGORY

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2. Metals and Mining Stocks

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