



Goldcorp Inc.: Is it Finally Time to Buy This Gold Stock?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) has been a disappointment for investors over the past five years, but the gold market is starting to pick up some steam, and investors are wondering if they should buy the stock.

Let's take a look at the current situation to see if Goldcorp deserves to be in your portfolio.

Gold on the move?

January has not turned out the way most investors expected. Stock markets are falling and gold is on the rise.

That wasn't how things were supposed to play out, but Mr. Market tends to throw a wrench into everyone's plans once in a while, and investors have to decide if the current trend is the start of something bigger or simply another head fake before equities surge again and gold resumes its slide.

Concerns about China's weakening economy and heightened tensions in the Middle East have sent a shock into global equity markets. As a result, some investors are shifting funds into safe-haven assets such as gold.

At the same time, Fed watchers are trying to decide if the expected three to four rate hikes in 2016 will be reduced. If that turns out to be the case, the gold market could get an extra boost, especially if the downward move in the U.S. dollar picks up steam.

So, the current outlook appears to be positive for gold prices, but we all know that can change very quickly.

Is Goldcorp a strong bet?

The company is near the end of a multi-year capital program, which should mean stronger free cash flow numbers in the coming quarters. The new Éléonore and Cerro Negro mines went into commercial production in 2015, and while the projects ran into a few speed bumps, the outlook and ramp up to

capacity is on track.

A look at Goldcorp's Q3 2015 numbers suggests better times have already started, despite the weak environment.

Production hit 922,200 ounces in Q3, up 42% from the same period in 2014 and all-in sustaining costs (AISC) for the quarter came in at US\$848 per ounce compared to US\$1,066 per ounce in Q3 2014. As output ramps up at the new facilities, AISC should continue to drop.

Free cash flow was US\$243 million compared to negative free cash flow of US\$355 million the year before. That's definitely a move in the right direction.

Total 2015 production was expected to be at the high end of guidance of 3.3-3.6 million ounces. We will find out the exact results when the Q4 numbers are reported.

The balance sheet remains in good shape. Goldcorp finished Q3 2015 with cash and cash equivalents of \$257 million and long-term debt of just US\$2.5 billion.

With capital expenditures and AISC coming down, Goldcorp is well positioned to benefit from rising prices. If you are a gold bug and think the latest rally has legs, this is probably a good time to start a position in the stock.

CATEGORY

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Date

2025/08/06

Date Created

2016/01/28

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