

## 3 Huge Surprises From Goldcorp Inc. This Quarter

### Description

**Goldcorp Inc.'s** (TSX:G)(NYSE:GG) recent fourth-quarter report was full of surprises. Unfortunately, none of them were good. Not only were its earnings non-existent, but its outlook for the future in terms of both shareholder distributions and production were significantly less than expected. Here's a closer look at why the company's quarter was so surprisingly disappointing.

#### **Surprise! We lost money this quarter**

Heading into the quarter, analysts expected Goldcorp to eke out an adjusted profit of just \$0.01 per share. It wouldn't be much, but at least earnings were expected to stay positive.

That's why it was such a surprise to see the company turn in an adjusted loss of \$0.15 per share for the quarter. That loss was actually much better than its reported GAAP loss of \$4.3 billion, or \$5.14 per share, which included a gigantic impairment charge, losses on foreign exchange translation of tax assets, and a number of other charges that the company took during the quarter.

The company blamed continued metal price volatility for the adjusted loss. However, it did note that it was free cash flow positive during the quarter, generating \$239 million in free cash flow. That was much better than the year-ago quarter when the company was free cash flow negative to the tune of \$241 million. Driving that improvement in free cash flow were workforce reductions, capital reductions, and productivity enhancements.

#### **Surprise! We're cutting the dividend**

Despite generating a lot of free cash flow last quarter, Goldcorp is lowering its dividend to a more sustainable level.

As such, it's switching from paying \$0.02 per share each month to that same rate on a quarterly basis, which reduces its total annual dividend outlay from \$0.24 per share to \$0.08 per share. That will enable the company to retain a bit more of its cash flow in order to strengthen its already industry-leading balance sheet as well as provide it with more internally generated cash flow to invest in growth projects.

#### **Surprise! We're reducing our production outlook**

Speaking of growth, that's not in the cards for 2016. In fact, Goldcorp's production is actually taking a step back this year. After producing 3.46 million ounces in 2015, the company sees its production falling to a range of 2.8-3.1 million ounces in 2016. That's well under analysts' projections of 3.5 million ounces in 2016.

The primary driver of this weak production is the company's Penasquito mine. After producing a record of 860,300 ounces in 2015, Goldcorp only expects to produce 520,000-580,000 ounces from the mine in 2016. The main culprit behind this production decline is the company's focus on mining a lower-grade portion of the pit in 2016.

The company sees these ore grades moderating until 2019 and then increasing after the company reaches the deeper portion of Phase six at the Penasco Pit.

### **Investor takeaway**

Goldcorp's fourth-quarter report was the ultimate bearer of bad news. Not only did the company miss analysts' expectations, but it reported a loss when analysts expected a profit. Worse yet, it sees production declining in 2016, instead of the growth that analysts were expecting to see. To top all that off, the company significantly reduced investor distributions, not only cutting the dividend, but adjusting the timing of the payout.

Suffice it to say, that's about as bad a report as a company can give its investors in any one quarter.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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