



Is Goldcorp Inc. Worth Buying?

Description

When times get rough and investors start to lose money in stocks, they like to flock to gold. Historically, it has been a great hedge against economic crisis and a solid store of value. Some investors invest in the mining companies rather than just hold gold.

One of the most commonly discussed gold miners that investors look to hold is **Goldcorp Inc.** (TSX:G)(NYSE:GG). This makes sense because Goldcorp is a low-cost producer of gold.

However, if we look at its most recent quarter, I can't help but feel that investors may want to avoid Goldcorp. If the company repeats its fourth-quarter results in future quarters, there could be a lot of pain ahead.

There were three key points that the company made.

Goldcorp lost money in the quarter. Analysts had expected that the company would make \$0.01 in earnings per share; however, Goldcorp had actually lost \$0.15 per share. Looking at its GAAP losses, the number skyrockets to \$5.14 per share because of a series of charges the company made.

Because its earnings dropped so significantly, the company announced that it was cutting its dividend. It used to pay \$0.02 per month. However, to ensure that it doesn't get into a cash crunch, it changed its distribution to quarterly, effectively cutting its dividend from \$0.24 to \$0.08 per year. At present values, it only pays a 0.52% yield.

To make matters worse, the company expects that its production will drop in 2016. In 2015, it produced 3.46 million ounces of gold. Initially, analysts had expected that number to grow to 3.5 million. However, because of problems at the company's Penasquito mine, Goldcorp now expects that to produce anywhere from 2.8-3.1 million ounces.

By default, a drop in the amount of gold that the company can produce necessitates a significant increase in the price of gold to offset that. While gold has certainly increased in price over the past couple of months, there has been a stabilization for the past few weeks. Therefore, if the price doesn't continue to increase, I expect the company will continue to lose money over the next few quarters.

On the other hand, if stocks and other types of investments start to drop again, the price of gold could rise significantly, providing a generous margin buffer for Goldcorp.

My belief when it comes to Goldcorp is that you are effectively hoping that gold is going to go up. That is the only way this company can make money. If you don't think the price will rise, avoid this stock. There might be better gold stocks that are in a different stage of their turn around.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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