



Goldcorp Inc.: Buy In or Bail Out?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) is down 15% in the past 30 days, and investors are wondering if the pullback after the big surge to start 2016 is a signal to double down or book some profits and run.

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

The numbers

Goldcorp expects to produce 2.8-3.1 million ounces this year at all-in sustaining costs (AISC) of US\$850-925 per ounce.

That's above the Q1 2016 cost of US\$835 per ounce and significantly higher than **Barrick Gold's** 2016 AISC target of US\$760-810 per ounce.

Goldcorp plans to cut US\$500 million in mine-site costs and corporate expenses over the next two years, so AISC should start to move lower.

The cost structure needs some work, but Goldcorp's appeal lies in its strong balance sheet. The company is only carrying US\$2.7 billion in debt and has US\$3.2 billion in available liquidity. With a market cap of US\$14 billion, Goldcorp is positioned well to take advantage of some consolidation opportunities in the sector.

To put the balance sheet issue into perspective, Barrick is carrying more than US\$9 billion in long-term debt. Its market cap is US\$19 billion.

Gold outlook

Gold took off like a rocket in the first few months of this year as fears about a financial meltdown in China combined with reduced expectations for Fed rate hikes brought buyers back into the beleaguered metal.

The past few weeks have seen a change in sentiment. Stronger U.S. economic data have the rate-hike

bulls calling for a June move and at least one additional increase by the end of the year.

The situation in China hasn't changed, but the media has decided to focus on other things, and that has sent some of the safe-haven demand to the sidelines.

Gold will likely tread water or drift lower until the Fed sends its next signal. Over the medium term, I think gold could resume its upward trend.

Why?

The U.S. is trying to move interest rates higher, but many countries around the world are headed in the opposite direction. In fact, several are already in a negative-rate environment, and that situation tends to be bullish for gold.

The big beef against gold has always been the fact that it doesn't pay you anything to hold it. In a scenario where interest rates are negative, gold's zero-yield status starts to look pretty good. Why would you pay the bank or government to hold your money? You might as well buy gold.

Should you buy or sell Goldcorp?

The company opened two new mines last year. As production ramps up, costs should come down, and that will help margins.

If you are a gold bull and want a conservative pick, Goldcorp is a solid choice. Existing investors with a buy-and-hold strategy should sit tight, but new investors could see a better entry point in the near term.

CATEGORY

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Date

2025/08/05

Date Created

2016/06/01

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