



Goldcorp Inc.: Should This Stock Be in Your Portfolio?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) has lagged behind its peers in this year's mining-sector rally, and investors are wondering if the stock is getting ready to catch up.

Let's take a look at the current situation to see if Goldcorp deserves to be a top mining pick.

Gold market

Gold has rallied in 2016 on the back of lowered expectations for rate hike in the U.S. and renewed fears of global instability.

Most market watchers entered the year thinking the U.S. Federal Reserve would hike rates four times in 2016. Weak data quickly changed the mood and expectations switched to two moves or fewer.

With the Brexit result adding more uncertainty to the mix, pundits are now calling for just one rate hike this year or possibly no adjustment at all. This has taken the steam out of last year's surge in the U.S. dollar and has provided a tailwind for the price of gold.

Recently, however, the rally has stalled out and investors are searching for clues as to what will happen next.

Concerns about a debt bubble in China could begin to resurface in the coming months, and that might provide some additional support for gold. The other item to watch is the global movement toward negative interest rates.

The big knock against gold is the fact that it doesn't pay you anything to own it. Now that Japan and several European governments have moved to positions of negative interest rates, the no-return aspect of gold starts to look pretty good. Why give the government \$100 when it only promises to give you \$99 back? You might as well own gold.

If the negative-rate trend continues to spread, the gold market could see more strength in the medium term.

Goldcorp's situation

Goldcorp is working hard to reduce costs.

The company is at the tail end of a major capital program and saw two new mines shift from development to production last year. The timing appears to be just right and costs should come down as the projects ramp up to capacity.

Goldcorp produced 784,000 ounces in the first quarter at all-in sustaining costs (AISC) of US\$836 per ounce. Guidance for 2016 is 2.8-3.1 million ounces at AISC of US\$850-925 per ounce. That's a bit high compared to **Barrick**, so Goldcorp still has so work to do.

Management plans to remove an additional US\$250 million in mine site and corporate costs over the next two years.

Kaminak acquisition

The rebound in gold prices has launched new interest in mergers and acquisitions in the sector.

Goldcorp just completed its acquisition of Kaminak Gold. The move is part of a new strategy to only add assets that are accretive to the company's net asset value per share.

Kaminak's Coffee project located in the Yukon is a high-grade, open pit project with three million ounces of indicated resources and a land package of 60,000 hectares that has the potential to produce additional near-mine discoveries.

Miners have to keep adding to their development pipeline, and finding high-quality resources with low AISC is becoming more difficult. Kaminak fits the bill and shareholders should see long-term benefits from the deal.

Should you buy Goldcorp?

Investors should be careful when jumping into any of the miners right now as the rally looks like it is taking a breather and a sizeable pullback should be expected in the near term. As such, I would wait for a better entry point for any of the top mining companies.

Having said that, if you are a gold bull and want to hold a name with strong development potential and a solid balance sheet, Goldcorp certainly deserves to be on your radar.

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