

Goldcorp Inc.: Is the Recent Pullback a Buying Opportunity?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) has given back 20% of its gains in recent weeks, and investors who missed the rally earlier this year are wondering if this is a good time to pick up the stock.

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

Gold market

Gold has enjoyed a fantastic run in 2016, but the rally is running into some headwinds.

What's going on?

The U.S. Federal Reserve is back in the spotlight as market watchers look for indications that a rate hike could finally be on the way in September.

The Fed was originally expected to raise rates four times in 2016, but weak economic data in the U.S., concerns about global financial markets, and the Brexit vote have all put the Fed on hold.

This has taken some of the strength out of the U.S. dollar and provided a nice boost to gold, which is priced in the American currency. Higher rates are also negative for gold because they increase the opportunity cost of holding bullion.

After the Brexit and the U.K.'s recent move to stimulate a weakening economy, many analysts thought the Fed would have to wait until 2017 to make the next rate move to the upside.

Now the market isn't so sure, and investors are taking profits in the gold sector ahead of a possible surprise. Given the uncertainty, new gold investors should be cautious.

Goldcorp

Goldcorp reported some ugly numbers for Q2 2016. The company had a net loss of US\$78 million compared to net earnings of US\$392 million in the same period last year.

Lower production due to weak ore grades and a shutdown at one of its facilities were primarily responsible for the pain.

All-in sustaining costs (AISC) came in at US\$1,067 per ounce on production of 613,400 ounces.

Guidance for 2016 was confirmed at 2.8-3.1 million ounces at AISC of US\$850-925 per ounce.

Goldcorp is working through some operational challenges, but the company should start to see things improve in the coming quarters. Two mines that went into commercial production last year continue to ramp up to capacity, and this should help lower AISC.

Management is taking advantage of the strong balance sheet to add new assets, and investors are hoping the recent purchase of Kaminak Gold will prove to be a wise one. The deal comes with the coveted Coffee project in the Yukon as well as an attractive land package that could produce additional resources.

Coffee has three million ounces of indicated gold and 60,000 hectares of additional property with opportunities for near-mine discoveries.

Should you buy?

Goldcorp is making progress on its turnaround efforts and is positioning itself well for future growth, but the cost structure is higher than its large peers, so you have to be a long-term gold bull to buy the stock today.

Gold could go either way in the near term. As such, I would wait for confirmation of a renewed uptrend before starting a new position in any of the miners.

CATEGORY

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2. Metals and Mining Stocks

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Author

aswalker

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