



## Gold Bugs: Is Goldcorp Inc. Headed Higher?

### Description

**Goldcorp Inc.** (TSX:G)(NYSE:GG) has trailed behind its peers this year, and investors with an eye on a long-term gold rally are wondering if this stock is going to make up some lost ground.

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

### Gold market

Gold rallied through the first half of 2016 as investors came to the realization that the U.S. Federal Reserve wasn't going to hike interest rates as quickly as expected.

Why is this important?

Gold is priced in U.S. dollars. When interest rates rise in the U.S., the value of the dollar normally increases compared to other currencies. This makes gold more expensive for foreign buyers and can put pressure on the metal's price. Higher rates in the U.S. also increase the opportunity cost of holding non-yielding gold.

Weak U.S. data and fears about the Brexit fallout have put the Fed on hold in 2016. As a result, the dollar has given back some of its gains, and investors have shifted funds into safe-haven assets.

What caused the recent slide in gold stocks?

Over the past few weeks, investors started to think the Fed might pull the trigger in September, and that led to a sell-off in the miners. Goldcorp fell about 20% during the pullback.

And what about the new rally?

The latest U.S. data figures have been weaker than expected, so expectations of a September hike are coming down. This is why investors are once again moving back into the gold sector, and, for the moment, it looks like the rally could be back on track.

## Is Goldcorp a good bet?

Goldcorp's Q2 2016 results were not very good. The company reported a net loss of US\$78 million for the quarter compared to net earnings of US\$392 million for the same period last year.

Weak ore grades and a shutdown at one of the mines were primarily responsible for lower production and higher costs. All-in sustaining costs (AISC) actually came in at US\$1,067 per ounce. That's significantly higher than Goldcorp's peers.

On the positive side, management confirmed production guidance of 2.8-3.1 million ounces for 2016 at AISC of US\$850-925 per ounce.

Investors should see AISC fall and production improve in the coming years. Two new mines went into commercial service in 2015, and those facilities should deliver better AISC as they move toward capacity output.

On the development side, Goldcorp recently acquired Kaminak Gold, which owns the coveted Coffee project in the Yukon. Coffee has three million ounces of indicated gold and 60,000 hectares of additional property.

At the moment, Goldcorp is less attractive than its peers, but the stock could catch up if the market starts believe the company will deliver better results in the medium term.

To buy the stock today you have to be patient and believe management can deliver better results. If you are in that camp and think gold is headed higher over the long term, Goldcorp might be a worthwhile contrarian pick.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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