



## Why Goldcorp Inc. Has Failed to Rally Like Other Gold Miners

### Description

The surge in gold has triggered a chorus of bullish calls on the outlook for the valuable yellow metal along with a sharp increase in the value of beaten-down gold miners.

Nevertheless, one gold mining major, **Goldcorp Inc.** (TSX:G)(NYSE:GG), has failed to keep pace with the tremendous rally in gold mining stocks. Its shares have only risen by 45% for the year to date—well below the gains experienced by other mining heavyweights such as **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX), which is up by 158%.

This can be attributed to a range of issues that are impacting Goldcorp's operations, triggering consternation among investors about whether or not it is a worthwhile investment.

### Now what?

Even with gold rising to its highest price since mid-2014, Goldcorp's revenue and net income deteriorated sharply for the second quarter 2016. Revenue plummeted by almost 37% year over year, and net income was down by a massive 119%, causing Goldcorp to report a net loss of \$78 million. This was despite the miner earning an average price per gold ounce sold during the quarter of US\$1,277, or 7% higher than it was a year earlier.

This is concerning, particularly when considering that one-time deeply troubled Barrick Gold reported an impressive 163% year-over-year increase in adjusted net income from an average quarterly gold price per ounce sold that was 1% lower than Goldcorp's.

Given the marked improvement in the operating environment for gold miners, it is difficult to reconcile how Goldcorp could have produced such a poor result.

The leading factor which triggered this was a steep decline in precious metals production. Gold output fell by a worrying 32% and silver a massive 49%. This can be attributed to an abrupt downturn in production at Goldcorp's flagship Peñasquito mine in Mexico, which has been responsible for around a third of its gold output in the past.

You see, for the second quarter, Peñasquito's gold output plunged to less than an eighth of what it had been a year earlier. This was caused by a pronounced deterioration in ore grades, planned plant maintenance, and a series of operational issues. Now with the mill maintenance completed and the plant returning to operation in July, Peñasquito should return to normal operations, which bodes well for an uptick in gold production at the mine over the remainder of 2016.

Nonetheless, Goldcorp's claim that it remains on track to achieve its 2016 production guidance of 2.8-3.1 million ounces of gold is somewhat optimistic. This is because ore grades at Peñasquito for the second quarter were 70% lower than they had been a year earlier, and with Goldcorp stating that it will continue to extract low-quality ore at the mine until 2019, it is difficult to see how the shortfall in production can be filled.

### **So what?**

Goldcorp's recent results highlight why it has trailed behind many of its peers due to its poor operational performance weighing heavily on its bottom line. Even with operations at Peñasquito resuming their usual tempo, it is difficult to see how there can be a substantial improvement to its performance over the short term, because low-quality ore grades will continue to impact its performance for the foreseeable future.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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