

## Why Now Is the Time to Buy Goldcorp Inc.

### Description

The recent dip in gold, and **Goldcorp Inc.** (TSX:G)(NYSE:GG) failing to keep pace with its peers because of a slew of operational issues, has hit its stock price hard. Unlike the majority of its peers, including **Barrick Gold Corp.** and **Newmont Mining Corp.**, which have rallied strongly to be up by 110% and 8%, respectively, Goldcorp has only risen by 22% for the year to date.

There are now a range of indicators that Goldcorp is an attractive means of playing higher gold prices.

### Now what?

The key drivers of the issues experienced by Goldcorp, which caused it to report a second-quarter 2016 loss of US\$78 million, was a sharp drop in ore grades and gold production from its flagship Peñasquito mine in Mexico. Gold output from the mine fell to an eighth of what it was a year earlier, and ore grades were down by 70%.

Nonetheless, it appears that Goldcorp has put the operational issues that triggered this catastrophic decline behind it and is positioned to deliver a solid full-year result.

The key has been Goldcorp's confirmation that its 2016 production guidance of 2.8-3.1 million ounces of gold with all-in sustaining costs of US\$850-925 per ounce. With gold now trading at over US\$1,250 per ounce, Goldcorp will earn a healthy margin for every ounce that it produces and sells over the remainder of 2016.

This appears achievable with Peñasquito having returned to normal operations and management's expectation that a number of mines will produce higher-quality ore over the remainder of 2016.

As a result, the significant uptick in production from Peñasquito, along with the relatively low all-in sustaining costs, should translate into a healthy bump in Goldcorp's bottom line, which will help to push its stock price higher.

More importantly, Goldcorp's operational performance will continue to improve for at least the foreseeable future. It has several projects underway that are aimed at boosting ore quality and productive capacity at its Peñasquito, Red Lake, Porcupine, and Nueva Union mines.

Goldcorp also acquired Kaminak Gold Corporation during July, giving it ownership of the Coffee gold project in Yukon. This project, on completion, is expected to add 200,000 ounces of gold annually to Goldcorp's total production and have all-in sustaining costs of just US\$550 per ounce of gold produced. Even if gold prices fall further, it is capable of generating solid margins for Goldcorp and boosting its profitability.

Those all-important profit margins will be further increased by Goldcorp's cost-reduction program, where US\$250 million in annual efficiencies have been identified. This program, which is expected to

be completed by 2018, will reduce all-in sustaining costs and expand Goldcorp's profitability.

### **So what?**

Because of the operational issues at its Peñasquito mine, which is responsible for roughly 30% of its gold output, Goldcorp has performed poorly and been roughly handled by the market. It missed out on the massive rally experienced by other miners, including Barrick and Newmont, but this has nevertheless created an opportunity for investors seeking exposure to gold.

What makes Goldcorp even more attractive is that unlike gold ETFs or bullion, it rewards investors with a regular income stream: it pays a sustainable dividend yield of just over 0.5%.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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