



Goldcorp Inc. Plunges 7%: Should You Buy the Dip?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) slipped 7% on March 28 on news of a game-changing partnership agreement with **Barrick Gold Corp.**([TSX:ABX](#))(NYSE:ABX) in South America.

Let's take a look at the deal to see if it might turn out to be in Goldcorp's favour.

Investing big in Chile

Goldcorp is spending close to US\$1 billion on assets in Chile's lucrative gold and copper region.

Under the agreement, Goldcorp will acquire a 25% interest in the Cerro Casale project from **Kinross Gold** ([TSX:K](#))([NYSE:KGC](#)) and a 25% stake from Barrick, which currently owns 75% of the project.

As a result, Goldcorp and Barrick will form a 50-50 joint-venture partnership to develop the site.

In addition, the partnership is buying an adjacent property, Quebrada Seca, from Kinross. Goldcorp will be responsible for paying for that acquisition.

Furthermore, Goldcorp announced it is spending US\$185 million to acquire a junior mining company that owns the Caspiche project, which is located just 10 km north of Cerro Casale. This asset will also be rolled into the new partnership. Half of the funds being spent on Caspiche will be deducted from the money Goldcorp has agreed to pay Barrick.

As the partnership begins its operations, Goldcorp will fund the first US\$520 million required to begin the development of Cerro Casale.

Is this a good deal for Goldcorp?

The market seems to think Goldcorp is getting the raw end of the deal based on the reaction of the stock prices. Barrick only slipped about 2.5% on a day that was generally negative for gold producers. Kinross dropped 3%.

Looking ahead, this might actually work out very well for both Goldcorp and Barrick.

Goldcorp gets an opportunity to take a stake in one of the planet's largest undeveloped gold projects at a time when the industry is having increasing difficulty in locating new resources.

Barrick gives up 25% of Casale, but finds a top-quality partner to help it move forward on a large capital-intensive but potentially lucrative project. If all goes according to plan, the partnership should drive higher net asset values per share for both companies.

The deal is expected to close before the end of June.

Should you buy Goldcorp?

Goldcorp is making good progress on its turnaround program, and the deal with Barrick shows the big mining companies are finally realizing it is in everyone's best interest to work together on major developments.

That should be a good thing for investors over the long term.

If you believe gold is at the beginning of an extended recovery, it might be worthwhile to pick up a bit of Goldcorp while the stock is out of favour.

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1. Investing
2. Metals and Mining Stocks

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