



Is Goldcorp. Inc. Attractive Today?

Description

Goldcorp Inc. (TSX:G)(NYSE:GG) has trailed its peers in recent years, and investors are wondering if the former go-to stock in the segment is about to regain its shine.

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

Gold outlook

Gold prices have enjoyed a small recovery in the wake of the Fed rate hike last month.

On the surface, that doesn't sound right.

Rising U.S. interest rates are generally negative for gold because they tend to put upward pressure on the U.S. dollar, in which gold is priced. This makes the metal more expensive for holders of other currencies.

At the same time, higher interest rates increase the opportunity cost of holding non-yielding assets, such as gold.

So, why did gold rally?

Investors sold gold and gold producers leading up to the Fed decision. The market expected the rate hike, but was worried the Fed might hint at more aggressive moves through the end of the year.

That didn't happen. The Fed stuck with its current playbook of three hikes in 2017, and investors reacted by buying gold.

With the Fed uncertainty out of the way, the market is now focused on other factors, including Brexit, French elections, Italian bank troubles, and anything Trump.

A big shock on any of these fronts could spur a strong move into safe-haven assets.

What about Goldcorp?

Goldcorp is working through a restructuring process. The company is reducing costs and making strategic investments to build the resource base and improve production.

The latest deal involves the purchase of assets in Chile.

Goldcorp is spending about US\$1 billion to become a 50% partner with **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) on the promising Cerro Casale project. Under the agreement, Goldcorp is picking up a 25% position in the asset from **Kinross Gold** and buying 25% from Barrick, which currently owns 75% of the project.

In addition, Goldcorp is acquiring nearby properties that will be rolled into the new partnership.

The market didn't like the deal and sent Goldcorp's shares down 7% on the announcement, but the long-term potential of the partnership looks attractive.

Cerro Casale is a very large, undeveloped resource. Gold companies are having a difficult time discovering large deposits, so it makes sense to secure one while gold prices are still relatively weak.

Partnering with Barrick is an efficient way to develop the capital-intensive site, and the deal should turn out to be positive for the net asset value per share of both companies.

Should you buy?

Goldcorp's all-in sustaining costs are down to more attractive levels, and the company expects a further drop of about 20% over the next five years. In addition, production and the resource base are expected to rise 20% over the same time frame.

If you are a gold bull, it might be worthwhile to add a bit of Goldcorp to your portfolio while the stock is still in the dog house.

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