



Could Goldcorp Inc. Double by Next Year?

Description

Gold is extending its rally to levels not seen in nearly a year, and investors are wondering if this is the right time to buy gold stocks.

Let's take a look at **Goldcorp Inc.** (TSX:G)(NYSE:GG) to see if some big gains could be on the way.

Oversold?

Goldcorp used to be the go-to name for investors who wanted to add a miner to their portfolios, but the company ran into some operational issues in recent years and fell out of favour with the market.

Management has done a good job in its efforts to turn things around, and investors might not be appreciating the progress.

The company reported Q2 2017 net earnings of US\$0.16 per share compared to \$0.09 per share in the same period last year.

Gold production rose to 635,000 ounces at all-in sustaining costs (AISC) of US\$800 per ounce, which was a big improvement over the 613,000 ounces produces at AISC of US\$1,067 in Q2 2016.

In addition, Goldcorp expects production and resources to increase by 20% over the next five years, while AISC should drop 20% over the same time frame.

Goldcorp has added strategic assets through acquisitions and joint-venture partnerships, including the \$1 billion purchase of a 50% stake in the Cerro Casale gold and copper project in Chile, which gives Goldcorp an interest in one of the world's largest undeveloped gold projects.

Gold outlook

Gold has rallied from US\$1,210 per ounce in late June to above the US\$1,340 mark in recent days.

Geopolitical tension involving North Korea continues to send funds into safe-haven assets, including gold. If the situation escalates, gold could see a major surge.

At the same time, investors are reducing their expectations for interest rate hikes in the United States. Higher interest rates tend to be negative for gold, as they increase the opportunity cost of owning the non-yielding metal.

Weak economic data in the U.S. has traders thinking the Fed might sit on its hands through the end of 2017. If that line of thinking picks up more support, or additional negative employment numbers come out in the weeks ahead, gold could get an additional boost.

Could Goldcorp double?

At the time of writing, the stock is trading at \$17 per share. Last year, when gold was at US\$1,340 per ounce, Goldcorp traded for \$22, so there is an argument to be made that the stock is currently undervalued.

If gold continues to move higher through the end of 2017 and into next year, sentiment should begin to shift, and we could see new funds move into the miners.

A double from here would require a big gold rally, possibly above US\$1,500 per ounce. That looks like a bit of a stretch at this point, but anything is possible right now, given the potential support from both safe-haven buying and reduced concerns on interest rate hikes.

Should you buy Goldcorp?

If you are a long-term gold bull and think the recent rally has legs, it might be worthwhile to start a small position in Goldcorp while the stock is still out of favour.

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Date

2025/07/30

Date Created

2017/09/07

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