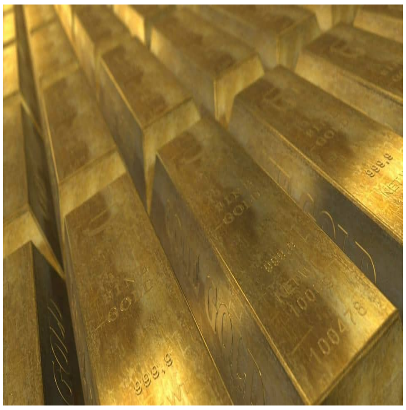

Should Goldcorp Inc. (TSX:G) Be on Your Contrarian Stock Radar?

Description

Contrarian investors are searching for unloved stocks in out-of-favour sectors, and the gold miners certainly fit the bill.

Let's take a look at **Goldcorp Inc.** (TSX:G)(NYSE:GG) to see if the company deserves to be in your portfolio today.

Financials

Goldcorp generated Q1 2018 operating cash flows of US$271 million compared to US$227 million in the same period last year. Adjusted operating cash flows were US$350 million, up from US$315 million, supported by an 8% increase in average realized gold prices.

Gold production dropped to 590,000 ounces from 655,000 ounces due to the sale of the Los Filos mine in April 2017 and the closure of the Marlin site in Q2 of 2017. All-in sustaining costs (AISC) came in at US$810 per ounce for Q1 compared to US$800 per ounce in the same period last year.

Net earnings fell to US$67 million compared to US$170 million in Q1 2017.

Goldcorp is primarily known as a gold producer, but the company also sells silver and zinc. Goldcorp's average realized silver price fell 8% year over year in Q1, while zinc increased 14%.

Overall, the first quarter was nothing to get excited about, but the long-term outlook might be different.

Growth plan

Goldcorp is making good progress on its turnaround program, and investors should see the benefits in the coming years.

Management expects to increase production and the resource base by 20% through 2021 and reduce AISC by 20% over that time frame. The company has already achieved US$210 million of US$250 million in identified sustainable annual efficiencies and says more improvements are on the way.

Gold outlook

Gold is hovering around US$1,300 per ounce after pulling back from a high near US$1,360 earlier this year.

Rising interest rates continue to be a headwind and should cap any meaningful rally in gold in the near to medium term. The U.S. Federal Reserve raised its target interest rate three times in 2017 and already bumped it up once in 2018. The market anticipates two more hikes this year.

However, the U.S. unemployment rate dropped to 3.8% in April, fueling speculation the Fed might be more aggressive than expected this year and raise rates four times. If that happens, gold might be in for a rough ride through the end of 2018.

Higher interest rates tend to be negative for gold, as investors have more incentive to shift funds out of non-yielding bullion and into fixed-income alternatives.

Gold bulls, however, are looking at potential trade war risks as well as instability in Italy as reasons the Fed might remain cautious. In addition, if the Fed raises rates too high, too soon, it could trigger a recession, so there will be some hesitation to move faster than anticipated.

As usual, where gold goes from here is anyone's guess, but I wouldn't bet on a big rally in the near term.

Should you buy Goldcorp?

Contrarian investors who are long-term gold bulls might want to pick up Goldcorp while the miner remains out of favour. The company appears to be on track with its turnaround strategy and could generated some impressive cash flow in the next few years, even if gold remains at its current price.

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