



Has the Outlook for Goldcorp Inc. (TSX:G) Improved?

Description

The outlook for gold miners has turned pessimistic because the price of gold has fallen to US\$1,224.10, which is its lowest level in almost a year. While the yellow metal has tumbled by 7% for the year to date because of a firmer U.S. dollar and higher interest rates, there are signs that the outlook for the yellow metal is improving. That will be particularly beneficial for the world's largest gold miner, **Goldcorp Inc.** (TSX:G)(NYSE:GG).

For a variety of reasons, it is not difficult to see the miner reporting some solid but relatively uninspiring results for 2018, including for the second quarter, which are due to be released on Wednesday.

Now what?

Goldcorp's stock has proved resistant to gold's latest decline; it's up by 5% for the year to date compared to the yellow metal, which has lost almost 7%.

Surprisingly, that is despite the senior gold miner reporting a sharp decline in first-quarter 2018 production and earnings. For that quarter, gold production declined by 10% compared to a year earlier, while net earnings plummeted to be almost a third lower.

Nevertheless, operating cash flow for the quarter was up by a healthy 19%, while all-in sustaining costs (AISCs) were only US\$10 an ounce higher than a year earlier. Despite the sharp decline in gold output, Goldcorp confirmed its 2018 guidance; it expects to produce 2.5 million gold ounces with AISCs of US\$800 per ounce, which is a mere 69,000 ounces lower than 2017.

More importantly, particularly in an operating environment where gold is weakening, AISCs are expected to be 3% lower year over year at US\$800 per ounce of gold produced. While production is roughly on par with 2017, lower AISCs will help to boost profitability, but it is too early to predict whether the miner's bottom line will expand significantly because of the muted performance of gold compared to 2017.

However, should [gold rally significantly](#) in coming months, which is likely because of growing fears that a full-blown [trade war](#) will occur, then Goldcorp's full-year earnings will receive a boost.

The miner also continues to develop its project pipeline, where it is advancing a range of projects aimed at enhancing the productivity of its Peñasquito and Musselwhite mines. Goldcorp also has four projects under development in Canada and two joint ventures in Chile. Those developments will help Goldcorp to boost gold production and go a long way to helping it achieve its target of bolstering gold output by 20% by 2021 and reducing AISCs by the same amount.

So what?

For investors seeking exposure to gold, Goldcorp — because of its robust balance sheet, the quality of its assets, and the maturity of its operations — is a solid lower-risk choice. There is, however, little likelihood that the miner will deliver outsized returns during 2018, meaning that smaller higher-risk junior gold miners could be a better bet for risk-tolerant investors.

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