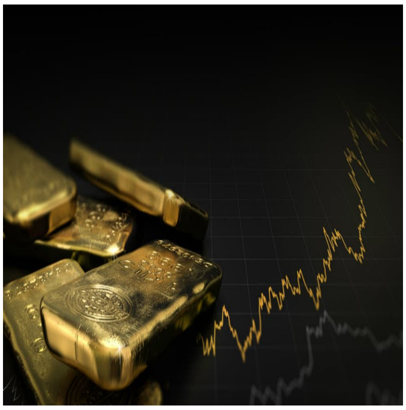

How the Massive US$10 Billion Goldcorp Inc. (TSX:G) Takeover Will Shake Up the Gold Industry

Description

Investors in gold stocks woke up this morning to a newsflash that has taken many by surprise: senior gold miner **Goldcorp** (TSX:G)(NYSE:GG) is getting acquired by **Newmont Mining** (NYSE:NEM) in an all-stock deal worth US$10 billion. Goldcorp shareholders should get 0.3280 Newmont share and US$0.02 for each Goldcorp share held. The new company, called Newmont Goldcorp, will become the largest gold mining company in the world.

This mega-deal comes close on the heels of **Barrick Gold** (TSX:ABX)(NYSE:GOLD) acquiring Randgold Resources. The gold industry is clearly consolidating like never before, and it seems lapping up rivals is an easier way to expand gold production capacity than finding new gold deposits underground.

Why the Newmont Goldcorp deal is huge

Barrick Gold's recent acquisition of Randgold hit headlines, as it created the world's largest publicly traded gold mining company. That's about to change now.

Based on the market capitalization of Newmont Mining and Goldcorp as of this writing, the acquisition will create a company worth nearly US$26.9 billion, easily surpassing Barrick Gold's market cap of US$21.6 billion.

In other words, we'll now have two giant gold miners fighting it out at the top to dominate the industry.

Also, Newmont Goldcorp's gold reserves and resources base will be the largest in the industry. It also helps that nearly 75% of its reserves are in Americas, which is one of the safest mining regions in the world. The remaining 15% and 10% are in Australia and Ghana. Comparatively, Barrick has significant measured and indicated resources in South America and Africa.

Solid dividends for gold investors

Newmont Goldcorp expects to produce six to seven million ounces of gold annually. That compares with roughly six million ounces that Barrick Gold and Randgold produced between them in 2017.

Newmont Goldcorp plans to divest assets worth US$1-1.5 billion while saving US$100 million a year, which could shore up its cash flows. That's good news for investors, as the company is aiming for highest dividend yield in the gold industry by paying a sustainable annual dividend of US$0.56 per share.

In fact, at 1.6%, Newmont stock is currently paying nearly twice in dividend yield as Goldcorp. So, Goldcorp investors should be better off with the new company that's expected to list on the **Toronto Stock Exchange**.

How this deal could affect the gold industry

With size and scale come production and cost efficiencies. Both Barrick and Newmont will enjoy economies of scale and should be able to cut production costs considerably in coming years. Costs are the key to profitability in an industry where revenue depends greatly on an unpredictable and volatile factor like the price of gold.

One thing is evident: Finding gold isn't as easy anymore for several reasons, including depleting reserves in mature regions, rising costs and interest rates, and unrest in some mining regions of the world. That is why the larger miners are flexing their financial muscle and going for mergers and acquisitions.

The Newmont Goldcorp deal will likely trigger even greater consolidation in the industry, especially among the smaller and mid-tier gold mining companies.

Newmont is one of the better-placed companies in the gold industry, given its strong production profile and balance sheet. Its latest acquisition takes it one notch higher in a competitive yet fragmented industry.

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