

Goldcorp Production Could Drop In The 4th Quarter, But It's Not All That Bad

Nov. 30, 2015 1:49 AM ET | [3 comments](#) | About: [Goldcorp Inc. \(GG\)](#) by: Sarfaraz A. Khan

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. **(More...)**I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Summary

The operational issues at Pueblo Viejo are going to hit Goldcorp's production numbers in the fourth quarter.

The company's gold production, which climbed from 724,800 oz in Q1 to record of oz ounces in Q3, could decline to 895,000 oz in Q4.

However, the problem is temporary, the company can still deliver better-than-expected production and remain free cash flow positive.

Goldcorp (NYSE:[GG](#)) stock has been under pressure due to the weakness in gold [prices](#) which recently dropped to near 6-year lows, strength in greenbacks and concerns related to an increase in interest rates in December. The company's recent quarterly performance hasn't helped.



Image: Pixabay

As a reminder, in the [third quarter](#), Goldcorp's loss widened from \$0.05 per share in the corresponding period last year to \$0.23 per share. This loss also included a number of one-off charges, including a reduction in value of stockpiles. But even on an adjusted basis, the

company posted a loss of \$0.04 per share, which was in stark contrast to analysts' expectations of a profit of \$0.04 per share.

However, Goldcorp posted impressive production numbers, with 41.5% year-over-year increase in gold production to a record level of 922,200 ounces, thanks to ramp up of some of new mines and strong operations from Penasquito (Goldcorp's biggest mine in terms of production), Cerro Negro and Musselwhite. This prompted the company to predict that it is going to hit the top end of its annual guidance of between 3.3 million and 3.6 million ounces of gold. But now, it is looking unlikely that the company is going to achieve this target, thanks to operational issues at Pueblo Viejo.

On Monday, the company [revealed](#) that a failure of two of three of the electric motors at the Pueblo Viejo mine's oxygen plant is going to impact its production. Pueblo Viejo, located in Dominican Republic, is one of the world's biggest gold assets. Goldcorp owns a 40% stake in the mine which made the second largest contribution to the company's production mix last year. Following the failure, the company now expects production to clock in near the mid-point of its annual guidance. **Barrick Gold** (NYSE:[ABX](#)), which is the operator of the project with a 60% stake, has been hit harder and has slashed its production guidance by 2% at the mid-point.

Although Goldcorp hasn't changed its annual guidance, the fact that it is now targeting the mid-point of the guidance rather than the top-end shows that the problem at Pueblo Viejo is going to have a big impact on its fourth quarter output.

On a sequential basis, the company's gold production has from 724,800 ounces in the first quarter to 908,000 ounces in the second to 922,200 ounces in the third. But if it ends up meeting the mid-point of its guidance, then its fourth quarter production will decline to 895,000 ounces. Obviously, the decline will be led by Pueblo Viejo whose output, I believe, could drop by more than 20% on a sequential basis.

If, on the other hand, Goldcorp were to produce 3.6 million ounces of gold in the current year, then its fourth quarter output would have come in at more than 1 million ounces, which is around 16% higher than the above-mentioned estimate (895,000 ounces).

However, it is important to note that while the mechanical issue at Pueblo Viejo will hit Goldcorp's fourth quarter performance, the impact is temporary. Barrick Gold believes that it can resolve the issue by the middle of Jan. 2016, after which the production will likely recover to normal levels.

Besides, there is always a possibility that Goldcorp is being conservative and its fourth quarter production numbers could come significantly ahead of market's expectations. That can happen if Barrick Gold and Goldcorp figure out a way to sustain production, on a temporary basis, while the equipment gets repaired, perhaps by renting electric motors.

On a positive note, Goldcorp has also maintained its all-in sustaining cost guidance of \$850 to \$900 per ounce. That's crucial because lower costs have played a key role in allowing the company to cover its CapEx from internally generated cash flow. Although the drop in

production can have a negative impact on cash flow, with no major issues at other mines, the company can still post positive cash flow in the quarter.

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"But It Is Not All That Bad"

Well how bad is it?

Many feel it is bad enough to bring the shares down to \$5 a share.

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Not familiar with gold corps balance sheet but none of these companies is financially strong. Any upset set could be the first of the following dominoes.

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In spite of continuous setbacks GG still manages to generate free cash flows. Dividend is safe; stock is undervalued; gold is near low point and ready to pop upward given the world situation; all systems go; buy. buy, buy at these cheap stock prices.

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