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Gold earnings season as noisy as expected so far

By Peter Koven
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Goldcorp suffers massive US$1.93-billion second-quarter loss on writedown at Mexican mine[1]

Goldcorp Inc. reported an enormous net loss of US$1.93-billion in the second quarter after taking a big writedown on the Penasquito mine in Mexico.

The news overshadowed disappointing adjusted earnings, though the company maintained its full-year guidance. Continue reading.[2]

Writedowns, plummeting profits and a vast range of realized prices have been key themes in the reports. Most importantly, the miners are unveiling the cost and capital spending reductions they merely hinted at for most of the year. They are a crucial step to preserve balance sheet strength amid a bear market for gold.

On Thursday, Goldcorp Inc. announced it is slashing spending by US$200-million in 2013, and reiterated mine closures are a possibility if gold sinks below US$1,200 an ounce for an extended period. It also cut exploration and general and administrative expenses. Rival Agnico Eagle Mines Ltd. plans to cut more than US$200-million from next year's budget.

The moves come just as credit rating agency Moody's warned the gold producers "must take action" to protect their ratings and minimize earnings deterioration. Miners in virtually every commodity are trying to slash costs and spending right now, but there is a greater urgency in gold because of the rapid decline in price.

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"They're starting to show the first signs of capital discipline," said Greg Taylor, a portfolio manager at Aurion Capital.

While they have announced some aggressive measures to preserve cash, ***Veritas*** analyst ***Pawel Rajszel*** said that details have been limited so far, and that companies are largely pushing spending into the future rather than cutting it.

"I think all the gold companies are talking more than walking," he said. "It would be easier to have confidence in the cost cuts if they laid out a more detailed plan of where they will be coming from."

The second quarter results provided evidence of why many companies need to cut, as they reported sharp declines in profit. But because the price of gold was so volatile throughout the quarter, the magnitude of the drop depended largely on timing.

Alamos Gold Inc. timed its sales well and came through the quarter with a solid realized gold price of US$1,423 an ounce. On the other hand, Goldcorp's production was weighted toward the end of the quarter, when the price fell sharply. As a result, its realized price was US$1,358, a full US$65 less than Alamos.

Goldcorp also had about 14,000 ounces of unsold inventory at the end of the quarter at its Red Lake mine. That is a positive, as the price improved in July.

Goldcorp's adjusted earnings came in below analyst estimates at US14¢ a share, but they gave the company credit for good operating performance. Production met expectations, and Goldcorp maintained its guidance for production of 2.55 to 2.8 million ounces this year at cash costs of US$1,000 to US$1,100 an ounce.

The results were overshadowed by a massive US$1.96-billion writedown on the Penasquito mine in Mexico, which reflects reduced value for the project's exploration potential. While it is a non-cash charge, it is a slight embarrassment for Goldcorp. Until now, the company avoided the wave of writedowns that have plagued rivals like Barrick Gold Corp. and Kinross Gold Corp. this year.

Goldcorp and Agnico both maintained their dividends, demonstrating their strong financial positions. Newmont Mining Corp. made an expected cut to its dividend because of its price-linked dividend policy, and many analysts expect Barrick to lower its payout when it reports next week.

References

1. business.financialpost.com/2013/07/25/goldcorp-q2-earnings-penasquito-writedown
2. business.financialpost.com/2013/07/25/goldcorp-q2-earnings-penasquito-writedown