Sell

January 8, 2013

Current Price C$34.69/US$35.22

Intrinsic Value US$35.00

Gold

FLASH: Goldcorp Inc. (TSX: G; NYSE: GG)

GET SET FOR ANOTHER DISMAL YEAR

Yesterday evening, Goldcorp released 2012 production numbers as well as updated guidance for the next five years. We suspect investors will find few, if any, positives in the update, as highlighted by the following setbacks:

- Full-year co-product operating costs were $645/oz, and are expected to rise to a midpoint of $725/oz during 2013. At this rate, gold prices will need to rise by 12.4% for margins to remain flat. The margin impact points to the pressures faced by the entire sector, as costs continue to rise faster than the price of bullion.

- Goldcorp's newly-adopted cost measure, dubbed "all-in sustaining cash costs," shows even worse inflation. With the inclusion of sustaining capex, among other expenditures, the measure shows costs rising from $865/oz in 2012 to an expected midpoint of $1,050/oz in 2013. The resulting 21.4% inflation bolsters our suspicion that sustaining capex in the sector are rising faster than operating costs.

- Cost inflation also made its way into capital spending, as the company announced higher capex at Eleonore, Cerro Negro, and Couchenour. We estimate the aggregate increase of $1.1 billion over previous guidance represents an impact of $1.30 per share.

- Production growth remains elusive as Goldcorp poured 2.39 Moz in 2012, compared to 2.51 Moz in 2011, and 2.52 Moz in 2010 — the opposite direction for a company that claims to be "one of the world's fastest growing senior gold producers." Goldcorp admits, as we cautioned at Q3, that grades at Penasquito and Red Lake will be lower than expected, bringing the company-wide production target for this year to a midpoint of 2.68 Moz — 16% below previous guidance.

- Although the company reduced their outlook for 2013 and each year through 2016, experience shows that Goldcorp's guidance is unreliable. In fact, as shown in the table below, the company's ability to meet targets has been deteriorating, which leads us to suspect another miss for this year.

Production Guidance Needs Guidance

(Amounts in millions of gold ounces)

	2010			2011			2012		
Mine	**Guidance**	**Actual**	**Miss**	**Guidance**	**Actual**	**Miss**	**Guidance**	**Actual**	**Miss**
Red Lake	675,000	703,300	*beat*	665,000	622,000	6%	650,000	507,500	22%
Peñasquito	180,000	168,200	7%	350,000	254,100	27%	425,000	411,300	3%
Los Filos	300,000	306,100	*beat*	335,000	336,500	0%	345,000	340,400	1%
Pueblo Viejo (40.0%)	0	0	0%	50,000	0	100%	85,000	41,200	52%
Porcupine	280,000	265,900	5%	260,000	273,100	*beat*	265,000	262,800	1%
Musselwhite	260,000	258,600	1%	265,000	242,600	8%	270,000	239,200	11%
Marlin	290,000	296,100	*beat*	400,000	382,400	4%	210,000	207,300	1%
Alumbrera (37.5%)	165,000	148,900	10%	130,000	133,500	*beat*	140,000	136,600	2%
Marigold (66.7%)	120,000	91,200	24%	90,000	102,500	*beat*	75,000	96,300	*beat*
El Sauzal	155,000	152,000	2%	95,000	100,500	*beat*	80,000	81,800	*beat*
Wharf	65,000	73,300	*beat*	60,000	67,500	*beat*	55,000	68,100	*beat*
San Dimas	110,000	53,400	51%	0	0	0%	0	0	0%
TOTAL	**2,600,000**	**2,517,000**	**3%**	**2,700,000**	**2,514,700**	**7%**	**2,600,000**	**2,392,500**	**8%**

Note: Using midpoints of guidance from beginning-of-year news releases.

Sources: Company disclosures, Veritas.

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- As we feared in our Q3 Snapshot for Barrick, production estimates for Pueblo Viejo (60% Barrick, 40% Goldcorp) were too optimistic. Although disappointing for Goldcorp, the miss does not bode well for Barrick's Q4 results.

- Cerro Negro, Goldcorp's next growth pillar, is situated in Argentina, where unofficial inflation estimates exceed 20%. Given Barrick's experience with Pascua-Lama, we worried that Cerro Negro's construction budget could grow above $1 billion. As it turns out, Goldcorp now expects the project to cost $1.35 billion. And if the higher costs weren't enough, the company also reduced Cerro Negro's annual production targets for first five years from 550,000 oz to 525,000 oz. Unfortunately, investors will also have to wait until 2014 before the mine ramps-up.

Although we expected reduced guidance, somehow the results were even worse than we had anticipated. To reflect this and rising execution risk, we are reducing our valuation to $35 per share.

Unfortunately, the only potential positive that investors have on their proverbial horizon is a reserve update to be released along with Q4 financial results. However, reserves could disappoint as well. So without any concrete catalysts ahead, we continue to see no reason for investors to hold the stock.

SELL.

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