

Seeking Alpha α

Goldcorp's Bad Community Relations Could Sink Stock

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| about: [GG](#), includes: [ABX](#), [BVN](#), [IVN](#), [NEM](#)

A [petition](#) is circulating to hold **Goldcorp (GG)** responsible for cleanup after it closes its Marlin mine in Guatemala in a few years. According to Amnesty International, the budget that the company is predicting for cleanup is much lower than that indicated by an independent study, so the fear is that Goldcorp will pull out of the country and just leave a mess behind it. I think that the most important strategy for Goldcorp at this time is to find ways to better inform the public of its actions as well as its planning processes, because otherwise, I foresee it taking a turn for the worse. I see mitigation and clean-up costs on the horizon, which could increase costs and eat into margins. With lower margins, investors are likely to assign a lower earnings multiple to the stock.

This is exactly the approach that the company is [taking](#) in Timmins, Ontario, where its Hollinger pit project has been under way for some time now. It seems that residents remain unaware of the implications of the project, or even of its various stages. Representatives from the company continue to bandy about reassuring phrases that are pretty much devoid of meaning, such as Goldcorp manager of social responsibility Dominic Rizzuto's comment that "we're going to be addressing those concerns." To me, this sort of response to questioning falls short of actually fulfilling the promise of answering people's questions, because it merely suggests that the information will be forthcoming at some undefined point in the future. Although the company is creating an [interactive website](#) for comments from residents and others affected by the mining operation, I'm not sure if this will be enough.

Minor injuries due to mining are often not reported in the media or by the companies themselves. Fortunately, [improved technology](#) is allowing for both better communication and higher levels of security. With the price of gold as high as it is these days, it is understandable that any company would want to dig as much profit out of each mine as possible. However, I believe that investing in security measures and social and environmental protection will pay off, not only for the community, but also for the company and its shareholders, because a positive relationship with the public will boost revenue as people remember their good experiences with that particular name.

Newmont Mining (NEM) is a case in point. Although it has remained profitable as the economy recovers and consumers turn back to purchasing luxury items, this company recently came in at number two on RepRisk's [list](#) of controversial mining companies. This dubious accolade gives a negative image to the stock, but it also speaks to a much deeper problem. **Compania de Minas Buenaventura (BVN)** and **Barrick Gold (ABX)** tied for seventh on this list. Luckily for Goldcorp, it did not make the cut, and I think that this evasion of controversy will work in the company's favor, as long as it can maintain good communication with special interest groups and others who may be concerned about the company's decisions.

One source of the problem could be the [lack of skilled labor in the gold mining job market](#). Finding people with the skill sets needed to build mines is getting tougher. This is also impacting the engineering side of mining. Social and environmental sustainability are also major buzzwords in mining these days. Goldcorp will have to take care to assuage the worries of community members and anyone else who justifiably expresses concern over this sort of approach. Investors should also pay attention, because this lack of skilled labor could cost the company serious money down the road, as it battles lawsuits and shells out money for cleanup operations.

The latest [story](#) of a profitable mine wreaking environmental chaos comes from Mongolia, where **Ivanhoe Mines (IVN)** is consuming 920 liters of water per second, according to reports. In a country where clean water is not as accessible as in the United States, this sort of action does not create a positive reputation for the company. Thus, as people back away from purchasing gold, it could affect the bottom line significantly, causing the stock to slide into free fall.

This sort of story is not uncommon, and citizens in the United States and elsewhere are paying close attention.

Residents like those in Timmins are demanding information, and if a company like Goldcorp does not provide it, it could face boycotting or protests that could dampen its ability to grow. So far, Goldcorp has kept a level head, it seems to me, but excuses and postponements of communication are not going to do it any good in terms of cash flow, in my opinion.

Unless the company can figure out a way to establish a firm and effective avenue of communication before it even goes into a community, I think that this stock is going to be facing difficulty in the coming weeks and months. Fortunately, the price of gold is still high enough that Goldcorp can pretty much maintain its competitiveness without worrying about the little people, but once the boom ends, I expect people's negative opinions of the company to damage its value by pushing sales down. It would be worth working on fostering good relationships now in order to avoid the dangers Goldcorp could be facing later on.

Disclosure: I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours.