Barrick Gold’s Turnaround Is Gaining Traction

Description

Despite a difficult operating environment, **Barrick Gold’s** (TSX: ABX)(NYSE: ABX) efforts to turn the ship around by restructuring the business, reducing leverage, and divesting itself of non-core assets is starting to pay dividends. When the company reported its first quarter 2014 results, it beat the average analyst earnings expectation of $0.19 per share, reporting net earnings for the first quarter of $0.20 per share.

Key highlights from first-quarter 2014 earnings
The difficult operating environment for gold miners caused by softer precious metal prices is highlighted by the lower realized sale price Barrick received per ounce sold during the quarter. The average realized sale price for the first quarter was $1,293 per ounce, which while being 2% higher than the previous quarter, is a whopping 21% lower than the first quarter 2013.

Disappointingly, Barrick’s gold production for the first quarter 2014 fell 7% compared to the previous quarter and by 12% in comparison to the same quarter in 2013. But this can be attributed to the company continuing to divest itself of less profitable and non-core operations.

But impressively, Barrick’s all-in-sustaining-costs for the first quarter had fallen considerably to $833 per ounce, which is 7% lower than the previous quarter and a massive 11% lower than first quarter 2013. This is also lower than Barrick’s forecast all-in-sustaining-costs for 2014 of between $920 and $980 per ounce.

These are the lowest all-in-sustaining-costs of any of the senior gold miners and among the lowest in the industry. It is even lower than the impressive $875 per ounce forecast by **Goldcorp** (TSX: G)(NYSE: GG) for its first quarter 2014 all-in-sustaining-costs.

All of which left Barrick with adjusted net earnings of $238 million or $0.20 per share, which is $0.01 higher than the average analyst forecast of $0.19 per share.

More importantly, Barrick's moves in 2013 to restore the strength of its balance sheet continues to proceed. Cash and cash equivalents by the end of the first quarter 2014 were $2.7 billion an increaseof 10% quarter over quarter and 14% year over year.

Barrick's total debt has fallen by a healthy 11% year-over-year. Leaving Barrick with a conservative debt-to-equity ratio of 0.8, indicating it now has a relative low level of leverage.

This bodes well for the ongoing profitability of Barrick's operations in an operating environment where the outlook for prices of gold and other precious metals remains uncertain.

The uncertain outlook for the price of gold weighs heavily on gold miners
It was only earlier this year that investment bank Goldman Sachs reaffirmed its outlook for gold and a target price of $1,050 per ounce.

This is well below the current spot price of $1,287 per ounce, but the key takeaway for Barrick is that even if the price of gold were to fall this low, its mining operations will still remain profitable. Many of its peers would be forced to further cut costs and capital expenditure in order to remain profitable.

Barrick is well positioned to continue operating profitably in an difficult environment with softer precious metal prices and an increasingly uncertain outlook for the price of gold.

What does it all mean for investors?
For the first time since the end of the gold rally, Barrick is starting to fire on all cylinders, with the company a far leaner and more profit focused operation. Not only did the company beat analyst expectations but it was able to further reduce its all-in-sustaining-costs to a level that allows it to remain profitable even if the price of gold softens further.

This is all thanks to the actions taken by management at the end of 2013 to clear the decks by undertaking a series of impairment charges across a range of less profitable operations and raise additional capital through an equity offering.

Despite evidence Barrick is one of the best positioned miners to operate in an industry significantly impacted by volatile precious metal prices, its share price has fallen 10% over the last year. This has left the company with some attractive valuation ratios, including an enterprise-value of a mere 6 times EBITDA and equal to $337 per ounce of gold reserves.

Canada's other senior gold miner, Goldcorp, appears more expensive than Barrick despite seeing its share price over the same period plunge 15% . It is currently trading with an enterprise value of around 9 times EBITDA and its enterprise value is equivalent to $386 per ounce of gold reserves.

Foolish bottom line
When the difficult operating environment is considered, Barrick has delivered a solid first quarter for investors. Not only did it manage to beat analyst expectations, but all-in-sustaining-costs were lower than its 2014 guidance. This bodes well for the company to continue delivering a solid performance throughout 2014 and remain profitable even if gold prices fall further.

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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