



Why Now Is the Time to Buy Barrick Gold Corp.

Description

Already this year we have seen some big names in the investment industry, including George Soros and Ray Dalio make some big bets on a recovery in precious metals. This has been on the back of a rally in gold prices, which saw the precious yellow metal regain some of the ground lost with the collapse of the gold bull market when the Fed started unwinding quantitative easing.

Currently the price is hovering around \$1,300 per ounce, which is a 6% gain for the year-to-date. Given the big bets being made by institutional investors as well as a range of other macroeconomic and geopolitical drivers, I believe gold will continue to appreciate.

What are the best ways to bet on gold?

There are a plethora of different ways investors can bet on gold, ranging from acquiring the physical metal, investing in a gold ETF, or acquiring shares in one of the many listed precious metal streamers or gold miners.

The physical acquisition of gold comes with many drawbacks, one of the biggest being the lack of liquidity that forces smaller investors to buy at retail prices and sell at wholesale prices. Investors would need to see a significant increase in gold prices if they are to sell at a profit.

Another option is to invest in a gold ETF, which essentially tracks the gold price and provides investors with a liquid readily saleable investment in gold. The largest gold ETF is **SPDR Gold Shares** (NYSE: GLD), which for the year-to-date is up 6% on stronger inflows.

But the key problem with placing a bet on gold prices with an ETF is the expense ratio, which is the fee investors pay for the privilege of investing. In the case of SPDR Gold Shares the fee is 0.4%, which may appear insignificant at first glance, but it does add up over time and has the potential to harm returns.

For this reason I believe investing in either a precious metal streaming company like **Silver Wheaton** (TSX: SLW)(NYSE: SLW) or **Franco-Nevada** (TSX: FNV)(NYSE: FNV), or a gold miner is a superior option. These companies are essentially a leveraged play on gold prices and as long as the gold price

continues to rise, they offer greater potential returns than an ETF. But that principle also operates in the opposite direction, with any sustained depreciation in the price of gold to apply significant downward pressure to their share price.

Both Silver Wheaton and Franco-Nevada are attractive because they have lower overheads than miners, allowing them to generate higher margins and remain profitable at gold prices miners can't. But both are starting to appear expensive with an enterprise value of 22 times and 25 times EBITDA respectively.

Barrick Gold is shining bright

But it is the gold miners and in particular **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX), which has caught my attention, with it trading with some attractive valuation metrics. This includes an EV of six times EBITDA, which is less than a third of either Silver Wheaton or Franco-Nevada. Furthermore, the company rebuilt its shattered balance sheet and worked hard to divest itself of non-commercial assets. It has also garnered the interest of Mr. Soros, who has made a massive US\$120 million bet on the company.

Barrick continues to operate with one of the lowest cost structures in the industry, with all-in sustaining costs of \$833 per ounce reported for the first quarter 2014. It is able to generate a solid margin per ounce of gold produced and remain profitable at prices other miners can't. This leaves the company well on track to achieve its 2014 guidance with all-in sustaining costs for the full year expected to come in at \$980 per ounce.

These costs are also lower than other senior gold miners including **Goldcorp's** (TSX: G)(NYSE: GG) \$840, **Newmont Mining's** ([NYSE: NEM](#)) \$1,034, and **AngloGold Ashanti's** \$993 per ounce for the same period. Furthermore, with Barrick's costs being fixed even a slight increase in the price of gold will significantly boost its bottom line.

Another reason I prefer Barrick is it recalculated its gold reserves using a gold price of \$1,100 per ounce, which is well below the current spot price. Any sustained rally in the gold price will see Barrick's reserves grow when it recalculates it at the end of this year with marginal gold resources included as reserves.

Barrick is well positioned to benefit from firmer gold prices and I believe will deliver value for investors through the remainder of 2014.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:FNV (Franco-Nevada)
4. TSX:WPM (Wheaton Precious Metals Corp.)

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