



Goldman Sachs Group Inc Is Bullish on Barrick Gold Corp.: Should You Buy?

Description

Last week, **Goldman Sachs Group Inc** ([NYSE: GS](#)) did a very interesting thing by putting **Barrick Gold Corp.** ([TSX: ABX](#)) (NYSE: ABX) on its Americas Conviction Buy list. What does this mean for gold bugs and Barrick investors?

Goldman already had a buy rating on the stock, but the company now believes Barrick is ready to deliver even better results for investors.

The interesting thing about this call is that Goldman Sachs is extremely bearish on gold prices. The company continues to maintain its year-end target of \$1,050 per ounce for the precious metal. Gold currently trades around \$1,300 per ounce.

Is this a signal for investors to buy Barrick Gold? Goldman may not be bullish on gold, but it sees a shiny future for Barrick based on the operational outlook.

Goldman now estimates that Barrick's new focus on high-quality assets will lead to a reduction in overall costs. The company is forecasting that Barrick will start to see positive free cash flow in the third quarter of 2014, and expects Barrick will churn out more than \$5 billion of free cash flow over the next four years.

Barrick is working hard at becoming a leaner and more efficient company. The mining giant has divested a number of non-core assets and this trend is expected to continue. Since 2012, Barrick has reduced the number of mines it operates from 27 to 19.

Barrick said in its Q2 2014 report that its capital expenditures guidance for the year will be \$200 million lower than previously stated. Reduced expenditures on low-profit assets means cash can be allocated to other areas and net debt should continue to drop at Barrick.

Gold properties

Barrick is focusing its exploration and growth efforts on its properties in Nevada. A significant portion of the funds are being used to advance Barrick's Goldrush property, which, the company says, is the only

significant greenfield discovery by a major gold producer in the last five years.

Goldrush is located in the same region as a number of Barrick's other tier one properties including Cortez and Goldstrike. In the Q2 2014 report, Barrick said the Nevada properties have the potential to exceed company risk-adjusted return hurdles.

Despite all the headaches at its Pascua-Lama project in Chile, the site still holds 15 million ounces of gold reserves and 675 million ounces of silver. Barrick is unlikely to walk away from the project and a recent memorandum signed with communities around Pascua-Lama suggests the company is cautiously mending fences.

Cost control efforts at all of Barrick's mines appear to be working as it reduced its 2014 all-in sustaining cost guidance for gold to \$900-\$940 per ounce. Previous 2014 guidance was \$920-\$980.

Copper operations

Barrick also has significant copper operations. Its Lumwana mine in Zambia just restarted ahead of schedule.

The company also recently signed an agreement to do a joint venture copper project in Saudi Arabia. The deal, announced in July, will be a 50% partnership with Saudi Arabian Mining Company (Ma'aden) to run the Jabal Sayid copper mine. Production at the mine is expected to begin in late 2015.

Barrick sees its 2014 copper production cash cost being \$1.90 to \$2.10 per pound. Copper currently trades around \$3.15 per pound.

Analysts are bullish on Barrick

Goldman analyst Andrew Quail raised his price target on Barrick by a dollar, to \$22.

Analysts at **Royal Bank of Canada** are also bullish. They bumped the price target for Barrick's stock to \$25 from \$23. RBC sees operational free cash flow of \$1.5 billion in 2015 and believes there could be more upside potential coming from Barrick's projects in Nevada.

The bottom line

Over the past two years, investors have watched Barrick's stock price get cut in half. Today, with most of the restructuring behind it, Barrick looks good. Investors who believe in the long-term gold story might want to take Goldman's advice and buy the stock.

CATEGORY

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Date

2025/08/25

Date Created

2014/08/12

Author

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