The Case for Barrick Gold Corp.

Description

Barrick Gold Corp. (TSX: ABX)(NYSE: ABX) may be the most hated company in Canada. And for good reason. It has made nearly every mistake imaginable over the past 15 years, and as a result many shareholders have lost a lot of money. Along the way, executives and directors were grossly overpaid. And now, the company is suffering from a massive debt load and falling production.

Usually, these kinds of companies can just be ignored altogether. But with Barrick's stock price having been hammered so much, there may be an opportunity. After all, the best stock market returns come when unloved companies become loved again.

So with that in mind, below are the top three reasons to buy at least a small stake in Barrick Gold.

Cost cutting

While the past three years have been very tumultuous, the company has made some marked improvements along the way. Chief among them is a lower cost of production, something very necessary in today's gold price environment. To illustrate, in the most recent quarter, all-in costs fell to $945 per ounce, down from $1,267 last year.

Part of this has come from selling high-cost mines. But it's also come from dialing back spending. The company is no longer spending money on failed megaproject Pascua Lama, and costs at producing mines have been cut too. For example, all-in sustaining costs at Goldstrike, Barrick's largest producing mine this year, has fallen by roughly 30% in just one year.

So while the gold price plunge may have inflicted a lot of pain on Barrick, the crisis may have made Barrick stronger in the long run.

Conservative estimates

At the beginning of this year, Barrick reported a 26% decline in total reserves, indicative of the company's struggles. But lost among the headlines was a key insight: the reserves assume a goldprice of $1,100 per ounce.

In other words, all of Barrick's reserves (which still total over 100 million ounces) are economic at $1,100 gold. If Barrick is able to mine these ounce at a cost of $920 – this year's all-in sustaining cost guidance – then Barrick's reserves could yield over $30 billion (pre-tax) at today's gold prices, or over $25 per share.

This number does not include any additional reserves that are economic at $1,230 gold. Nor does it include any future reserves the company may find.

The case for gold

So, at this point, Barrick offers plenty of upside even at today's gold prices. But there are plenty of reasons to believe the gold price will increase.

For one, the Ebola virus is not only a threat to the world economy but also to gold production. For example Ghana, located in West Africa, is the world's 10th largest gold producer.

Secondly, the Chinese continue to buy ever-increasing amounts of gold, doubling its consumption since 2011. Finally, Europe continues to struggle, and a rebirth of the Euro crisis could see gold return to 2011 levels.

The verdict

There's a strong case to be made for Barrick. But it's still a very risky option. You shouldn't hold more than a sliver of it in your portfolio.

So, of course, you'll need to hold various other names. The five names in the report below are certainly worthy of consideration.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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Date
2025/07/23
Date Created

2014/10/27
Author
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