Is Now Finally the Time to Buy Barrick Gold Corp.?

Description

As oil prices tumble, some countries – such as Venezuela, Iraq, Iran, Russia and Nigeria – are suffering very badly. These nations have depended on oil revenue to fund lavish spending, and with that money drying up, changes will have to be made. These changes will not please these countries' populations, and what happens next is anyone's guess.

So with this kind of narrative, is now the time to bet on gold? More specifically, should you buy **Barrick Gold Corp** (TSX: ABX)(NYSE: ABX), the world's largest producer? After all, the shares appear very cheap after plummeting nearly 75% over the past three years. Below we take a look.

The case for Barrick

There are other reasons to like the company. For one, the company has become much more disciplined than in years past. Gone are the days of speculative megaprojects, overambitious acquisitions, and endless borrowing. Instead, the company has been cutting costs, selling non-core assets, and restricting investment to the geographies it knows best.

There are also reasons to believe the gold price will recover. Demand from China has doubled since 2011, the Ebola virus is threatening supply from West Africa, and miners are cutting back on investment spending. And if the gold price ticks up, Barrick shares would certainly follow suit.

Meanwhile, the company appears relatively cheap compared to **Goldcorp Inc.** (TSX: G)(NYSE: GG). Barrick is valued at roughly $4,000 per ounce of gold production, and that number is nearly $7,000 for Goldcorp.

But there are still some issues

That being said, there are still some reasons to stay away from Barrick shares.

First of all, low oil prices do not hurt everyone. More specifically, the United States has benefited quite nicely. Ordinary people have some extra money in their pockets from lower gas prices. The country is also importing less, which boosts the value of the greenback. And as people feel more optimistic, they may decide to hold less gold. All of this would be bad news for the shiny metal.

And if gold depreciates much further, then Barrick could get crushed. For instance, if the gold price drops to $1,000 per ounce, then the company probably won't make enough cash flow to service its $13 billion in debt.

Even at current gold prices, Barrick only makes about $300 (pre-tax) annually per ounce of production. So all of a sudden, the shares start to look really expensive at $4,000 per ounce of production.

Nobody knows for sure which way the gold price will go. But if the oil plunge has taught us anything, it's that risky commodity bets can be very painful when they go wrong.

And this is clearly another risky commodity bet. So despite some compelling arguments, your best bet is to just stay away from the shares.

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1. NYSE:B (Barrick Mining)
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