



## The Stock Picker's Guide to Barrick Gold Corp. for 2015

### Description

Last year was yet another awful one for **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and its shareholders, with the stock declining by about a third. Languishing gold prices were the main factor.

But now, with the price of Barrick so depressed, is now the time to jump on the bandwagon? Below we take a look at what to consider.

#### The right steps have been taken...

To Barrick's credit, it has mostly made good moves in the last year and a half. Gone are the days of reckless expansion, out of control costs, and awful compensation practices. Instead, the company has sold high-cost assets, cut costs significantly, and improved the way it pays its top managers. As a result, all-in sustaining costs are expected total roughly US\$900 per gold ounce in 2014. In 2013, that number was \$1,269.

Better yet, the company is also committed to a more focused capital plan. Roughly half of capital expenditures are taking place in Nevada, a geography the company is very familiar with.

#### But the gold price could fall further...

Predicting where the gold price (currently trading at roughly US\$1,200 per ounce) will be in a year is virtually impossible. But there are reasons to believe the price could fall further.

For one, low oil prices are putting a lid on inflation. Remember, the fear of inflation is one of the main motivations for buying gold, so if the oil slump continues, then gold could lose its appeal as an investment. Low oil prices are also a positive for the American economy and American dollar, both of which put further downward pressure on gold.

Even if inflation ticks up, the Federal Reserve could easily step in with looser monetary policy. In other words, interest rate hikes are on the horizon. This would spell yet more trouble for the gold price.

Of note, Goldman Sachs has said that gold prices could fall to US\$1,000 per ounce. The bank is not

alone in that belief.

### **Barrick is not prepared for a lower gold price**

So what would US\$1,000 gold mean for Barrick? Well, the prognosis isn't good.

As mentioned, the company is able to produce gold for roughly US\$900 per ounce. If the price falls to US\$1,000, then that's only US\$100 of profit per ounce of production. Based on just over 6 million ounces of production in 2014, that's just over \$600 million in cash flow. And that's not enough to cover \$800 million per year of financing charges.

Granted, gold could move in the other direction. One big factor will be the Greek election on January 25 – if the opposition Syriza party wins, then the country will likely exit the Euro zone. And if that happens, wider economic stability could follow, prompting gold to rise.

But the risk of gold declining further is too great to ignore. Thus Barrick shares should be avoided.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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