Does Barrick Gold Corp. Present the Best Opportunity to Cash in on the Rebound in Gold?

Description

The past year was a shocker for gold investors and miners alike, with the price of gold coming under extreme pressure from a resurgent U.S. dollar. This saw gold mining stocks hit hard as gold fell, but the recent rebound which now sees gold up by 12% from its early November 2014 52-week low, has been a boon for gold miners. This rebound has caused the **NYSE ARCA Gold Bugs Index** – an equal dollar weighted index of the 18 largest gold miners listed on the NYSE – to jump a healthy 43%.

But one gold miner whose share price has not rebounded as strongly as its peers is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX). Since gold hit is 52-week low, Barrick's share price has only rebounded by a mere 7%. This has left some investors speculating as to whether Barrick now represents an investment opportunity. Let's take a closer look.

Appears attractively priced

With Barrick's share price lagging many of its peers, the company currently sports some attractive valuation metrics, particularly in comparison to its peers. These include an enterprise-value or EV of 5 times its forecast 2015 EBITDA and equal to US$231 per ounce of its gold reserves.

This makes it appears cheap compared to **Goldcorp Inc.** (TSX:G)(NYSE:GG), which has jumped an impressive 34% since early November and now has an EV of 10 times its forecast 2015 EBITDA.

Remains a low cost senior gold producer

Another of Barrick's key strengths is that it is a low cost senior gold producer. For the third quarter 2014, its all-in-sustaining-costs or AISCs were US$834 per ounce, which were among the lowest in its industry for that period. This includes being substantially lower than Goldcorp's AISCs for the same period of US$1,066 per ounce.

Such low AISCs leave Barrick well positioned to continue generating a solid margin per ounce of gold produced, particularly after the recent rebound in gold prices.

Outlook for gold is increasingly positive

The outlook for gold remains positive even after the recent rebound. This is because growing global macro-economic and geopolitical volatility have brought the spotlight firmly back on safe haven assets, of which gold is the most widely recognized.

The primary drivers of this uncertainty include the poor economic outlook in the Eurozone, a slowing Chinese economy, and ongoing conflicts in the Middle East and Ukraine. These factors according to some analysts have the potential to push gold prices to between US$1,300 to US$1,400 per ounce by the end of 2015, which in conjunction with Barrick's low AISCs will allow it to generate a healthy margin for each ounce of gold produced.

Wall Street has bet big on Barrick

Despite Barrick's deluge of problems including a weak balance sheet, ongoing problems with the massive Pascua-Lama project and the suspension of operations at the Lumwana copper mine in Zambia, institutional investors continue to hold big positions in Barrick. These include the legendary investor George Soros along with hedge fund managers Ray Dalio and John Hussman, who between them hold shares worth around US$42 million. This indicates that some of Wall Street's biggest names see value in Barrick and are betting its share price will rebound further as gold climbs higher.

What does the future hold?

While there is certainly some value present for investors, particularly with Barrick's share price lagging behind its peers, the jury is still out as to whether it is a worthwhile investment. Aside from its operational issues, keep in mind that the company has also had to raise capital to shore-up an over-leveraged balance sheet and has experienced considerable boardroom conflict.

While its share price has lagged behind its peers highlighting some potential value for investors, I remain of the mind that Barrick presents a speculative opportunity at this time.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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