Is Now Finally the Time to Invest in Barrick Gold Corp.?

Description

On Thursday, **Barrick Gold Corp** (TSX:ABX)(NYSE:ABX) reported earnings for the fourth quarter of 2014, and also provided guidance for 2015. It was something that analysts and investors had been eagerly anticipating.

So what are we to make of 2014's results? And what's in store for the company in 2015? Most importantly, is now the time to buy Barrick shares? Below we take a look.

2014: A year of transition

There were some very positive aspects to Barrick's year in 2014. Most importantly, the company beat its cost guidance, with all-in sustaining costs falling by 5.6% to US$864 per ounce. As a result, cash flow numbers were strong, with operating cash flow of US$2.3 billion.

The headline-grabbing number was another US$2.8 billion in writedowns, mostly related to the Lumwana copper mine in Zambia. But this had been expected; the Zambian government is planning to increase mining royalty rates from 6% to 20%, making the Lumwana mine uneconomic.

And when stripping out these write-downs, Barrick had a very solid fourth quarter, with adjusted earnings of US$0.15 per share. This number was well ahead of analyst estimates, and Barrick's stock has reacted appropriately, up about 5% as of this writing.

2015: Another transition year

Looking ahead, Barrick will be much more cautious than in years past. Notably, Barrick wants to reduce its debt by US$3 billion this year. If the company were successful in doing this, it would be a major positive step. Barrick has a US$13 billion debt load, which is expected to cost north of US$800 million this year in finance costs.

But it won't be easy. The company is putting a couple of mines up for sale, but one of them is marred by political turmoil, and may not fetch a high price. The other doesn't produce very much gold.

Barrick also hopes to return to positive free cash flow, which would be another big positive. Whether that is possible is an entirely different matter. The company may have to sell other mines to meet its debt target, and this would put a dent in production as well as cash flow.

Finally, Barrick expects production to fall somewhere between 6.2 and 6.6 million ounces in 2015. But this number includes production from the two mines up for sale. All in all, when looking at Barrick's three big goals — debt reduction, positive free cash flow, and production growth — investors should expect at least one of those goals to be missed (unless gold prices increase significantly).

Are the shares worth buying?

Let's do some basic math. Suppose Barrick produces 6.4 million ounces of gold in 2015, with costs of US$864 per ounce. With gold at US$1,200 per ounce, that equals just over $2 billion of cash flow. Subtract finance costs of US$800 million, and Barrick will make roughly US$1.35 billion. And that doesn't even include taxes or some capital expenditures. Yet the company is valued at US$15 billion.

The news could easily get worse. If gold prices go down, then Barrick will have very little wiggle room. And in a few years, the company will have to make some significant debt repayments.

So at this point, there's a lot of downside with Barrick shares. You should stay away.

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