Why You Should Sell Barrick Gold Corp. Shares Today

Description

The U.S. Federal Reserve decides when to raise interest rates, so investors are paying close attention. This is because higher rates will increase borrowing costs (thus reducing earnings), and will also be a slight negative for economic growth. So, whenever there's any hint of a rate increase, markets tend to tumble.

With that in mind, a rate hike is looking to be inevitable, especially with the U.S. economy performing so strongly. It's worth taking a look at how different companies are affected.

Of course, some firms will be hit harder than others. One of them is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), a company that's had its share of struggles already. Below, we take a look at two reasons why.

1. Debt costs

To put it mildly, Barrick has a mountain of debt on its balance sheet. More specifically, the company owes creditors just over US$13 billion. Thankfully, rates are very low these days, which saves the company interest costs. Still, Barrick will have to spend US$800 million this year alone on interest payments.

What happens when rates go up? Will Barrick have to pay more? Not so fast. The company's debt is mostly long term, and is also a mostly fixed rate. So, Barrick's bottom line "is not materially impacted by changes in interest rates," as stated in the company's year-end report.

In the long term, the trend is much more worrying. Nearly US$3 billion is due by 2019 and this may have to be refinanced. If interest rates return to their historical averages, or if Barrick's financial conditions worsen, then these interest costs could spike. Shareholders, take note.

2. The gold price

This is a much more serious problem for Barrick. If interest rates rise, then bonds will become a more attractive investment. Concerns about inflation will decrease. The U.S. dollar will strengthen further. All of this would be very bad for the gold price.

If you don’t believe me, just look at what’s happened over the past few months. Investors have been anticipating a rate hike, which has helped boost the U.S. dollar’s value. Along the way, gold has fallen to roughly US$1,150 per ounce.

Barrick and its shareholders should hope that I am wrong. The company is set to produce 6.4 million ounces of gold this year at a cost of US$840 per ounce. If the gold price falls below US$1,000, then finance costs will consume nearly all profits from gold mining.

My recommendation is to stay away from Barrick. Its finances could get a lot worse, yet the company is still valued at over US$12 billion. I know the stock has declined over the past few years, but there’s still plenty of downside left.

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