



4 Reasons to Buy Barrick Gold Corporation

Description

Barrick Gold Corporation ([TSX:ABX](#))(NYSE:ABX) has been the bad boy in the bullion camp for the past four years, but signs of a rebound are emerging and investors are wondering if now is the time to get in.

Let's take a look at the reasons why I think gold bugs should consider putting Barrick back on their radars.

1. Management maturity

Barrick Gold has a nasty reputation for destroying shareholder wealth through its bigger-at-all-costs approach to the gold market. Fortunately for investors, those days appear to be gone and the company's new management team is determined to return Barrick to its origins of being a nimble miner focused on profitable growth.

Head office staff is headed for a 50% haircut; non-core assets are being divested; and Barrick plans to reduce its massive debt load by \$3 billion in the next nine months.

Shareholders are actually being put first for a change, with all new investments being evaluated against a 15% return-on-capital benchmark. According to statements made in the Q4 2014 earnings report, Barrick will "defer, cancel, or sell projects that cannot achieve this target."

2. Balance sheet stability

Barrick finished 2014 with US\$2.7 billion in cash and US\$4 billion in undrawn credit lines. The company also had total long-term debt of nearly US\$13 billion (ouch!), but only about \$1 billion is due in the next three years.

The solid liquidity position means Barrick should be able to dig itself out of the debt hole in a disciplined way, rather than being forced to dump its best assets or gut investors through a nasty equity sale. Investors won't come out of the restructuring process unscathed, but a share issue should be done at a higher price, and after the company has unloaded non-core mines.

If it is timed right, an equity issue could be positive for Barrick's stock, but the company has to be careful.

3. Operational improvements

Barrick finished 2014 with production of 6.25 million ounces of gold at all-in-sustaining costs (AISC) of \$US864 per ounce. In 2015 the company anticipates production to be 6.2-6.6 million ounces at AISC of US\$860-895 per ounce.

The important point for investors is that the company is expecting to generate positive free cash flow at current prices and AISC should drop through 2017.

4. Technical strength

Chart watchers are getting excited about the recent surge in gold prices and in Barrick's stock. The shares have gained nearly 20% since March 18 and are approaching a six-month resistance point of about \$16.25. If the stock breaks through \$16.50 and holds that gain, the shares could easily run to \$20 before taking a breather. However, if the rally runs out of steam at \$16, the stock will likely pull back sharply.

Should you buy?

Barrick is a contrarian pick and you have to be a long-term believer in the gold story to bet on the stock. Given the fact that the company can produce positive free cash flow at low prices, the upside potential probably outweighs the downside risk at this point.

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2. Metals and Mining Stocks

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1. Editor's Choice

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