



Is This the Right Time to Buy Barrick Gold Corporation?

Description

Barrick Gold Corporation ([TSX:ABX](#))(NYSE:ABX) is going through a significant transition process and contrarian investors are wondering if now is the time to pick up the stock while it is still on the market's hate list.

Let's take a look at Barrick to see if it deserves to be in your portfolio.

New strategy

Barrick has been a disaster for shareholders over the past four years and investors can be forgiven for avoiding the stock. However, things are changing at the company and some gold bulls are starting to kick the tires again, despite the challenging environment.

Staff levels at Barrick's head office are being trimmed by 50% and non-core assets are being sold off. This is starkly different from the historic approach of growing bigger at all costs, regardless of the returns.

The recent battle over executive pay has some doubters saying things aren't really changing, but the plan management has on paper is to put shareholders first. All new investments are being evaluated against a target return on capital of 15%. In its Q4 2014 earnings statement Barrick said projects that do not meet this benchmark will be cancelled, sold, or deferred.

Big debt problem

Barrick finished 2014 with long-term debt of roughly US\$13 billion. That's a scary number for a company that has a market cap of US\$15 billion and operating in a difficult commodity market.

The good thing is that only about \$1 billion is due in the next three years. This gives Barrick some breathing room as it works to streamline its operations and bring down the debt load to a more manageable level.

At the end of December, Barrick had US\$2.7 billion in cash and US\$4 billion in undrawn credit

facilities. This means the company should have adequate liquidity to work through the transition process in a controlled way instead of being forced to dump assets or raise capital in a rush to avoid a cash crunch.

One of the big risks for investors is that Barrick will issue a truckload of new shares to pay down the debt, and annihilate existing shareholders in the process. That is certainly a possibility, but the ideal scenario will see Barrick unload non-core assets and wait for a higher share price to issue new stock.

Operational efficiency

In 2014, Barrick produced 6.25 million ounces of gold at all-in-sustaining costs (AISC) of US\$864 per ounce. This year, the company expects production to be 6.2-6.6 million ounces with AISC coming in at US\$860-895 per ounce.

Based on current commodity prices, Barrick is anticipating positive free cash flow for 2015. The company is also expecting drop in AISC through 2017.

Should you buy Barrick Gold?

Barrick is still a risky bet and it should only represent a small part of your portfolio.

Investing in the company requires the belief that gold prices are headed higher in the next few years. At this point, the company looks like it is finally turning the corner, and the fact that it can deliver positive free cash flow at current prices should limit the downside risk. Having said that, the company is a contrarian pick and you need to be prepared for more volatility.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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