3 Reasons Why Barrick Gold Corp. Shares Could Take off

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is one of Canada's most hated stocks right now, and the company has only itself to blame for that.

But whenever stocks are hated, that's often a great opportunity to pick up a bargain. So, on that note, we explore three reasons why Barrick's stock could be poised to take off.

1. Gold prices could be set to rise

We've all heard the arguments for why gold prices will skyrocket. Whether it's global debt levels, central bank buying, Chinese demand growth, or supply constraints, so-called gold bugs always have something to talk about. But these days there's one thing in particular worth focusing on: Greece's troubles.

Ever since the election of the anti-austerity Syriza party in January, the likelihood of a Grexit has only grown. Greece's three creditors—the European Union, European Central Bank, and International Monetary Fund—are looking for drastic reforms in Greece, including steep pension cuts. Syriza has taken some moderate steps, but has generally taken a hard line, which has infuriated these creditors.

As of this writing, a compromise is within reach, but the two sides remain at an impasse. Syriza is even considering skipping a €300 million IMF payment due Friday. And a compromise offer by the creditors is infuriating many on Syriza's left-wing flank.

So, a Grexit has become a real possibility, which could have some drastic ripple effects, both in Europe and around the world. That would be a major positive for gold prices, and Barrick Gold as well.

2. The company has changed its ways

Barrick's problems have come from a lack of discipline in years' past. There's no denying that. But there are signs the company is evolving.

Mining costs have come down, a reality in today's gold environment. High-cost operations have been sold. Capital budgets have been slashed, and are more focused in places where Barrick is comfortable (such as Nevada). Executive Chairman John Thornton hopes to reduce the company's debt load by US$3 billion this year.

Granted, the jury is still out on Barrick. The company infuriated its shareholders when Mr. Thornton got a 36% pay hike in 2014, a year when the company's stock price declined by a third. It will take a while to rebuild a level of trust.

But over time, if Mr. Thornton is able to reform Barrick, then investors could come rushing back. Time will tell.

3. The stock is very depressed

Over the last three years, Barrick's stock price has fallen by about two-thirds. For this reason, the stock has lots of room to move up, should Barrick recover.

To illustrate, Barrick produces just over six million ounces of gold at just under US$900 per ounce. If gold prices recover to just US$1,400, Barrick would make close to $3 per share in cash flow. Even after deducting interest payments and taxes, that's a big number for a stock trading below US$12. And if gold recovers to the levels we've seen in previous years, the upside is that much greater.

Of course, there's still a lot of risk with this investment. If gold prices retreat further, Barrick could find itself in real financial trouble. And as mentioned, the jury is still out on the company's practices. But let's not forget there's tremendous upside too.

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Author
bensinclair