



Is Barrick Gold Corp. Headed Higher or Is the Rally Overdone?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX), one of the largest producers of gold in the world, announced weaker-than-expected second-quarter earnings results after the market closed on August 5, and its stock has responded by rising over 6% in the trading sessions since. Let's take a closer look at the results to determine if the stock could head higher from here, or if the rally is overdone.

Lower gold prices lead to weak results

Here's a summary of Barrick's second-quarter earnings results compared with what analysts had expected and its results in the same period a year ago. All figures are in U.S. dollars.

Metric	Reported	Expected	Year-Ago
Adjusted Earnings Per Share	\$0.05	\$0.07	\$0.14
Revenue	\$2.23 billion	\$2.26 billion	\$2.46 billion

Source: *Financial Times*

Barrick's adjusted earnings per share decreased 64.3% and its revenue decreased 9.2% compared with the second quarter of fiscal 2014. These weak results can be attributed to three primary factors. First, gold prices have fallen over the last year, which led to the company's average realized price of gold decreasing 7.7% to \$1,190 per ounce. Second, its total gold sales decreased 3.3% to 1.47 million ounces. Third, its all-in sustaining costs per ounce of gold increased 3.5% to \$895.

Here's a quick breakdown of 10 other notable statistics from the report compared with the year-ago period:

1. Adjusted net income decreased 62.3% to \$60 million
2. Total gold production decreased 2.7% to 1.45 million ounces
3. Total copper production increased 71.6% to 115 million pounds
4. Total copper sold increased 53.4% to 112 million pounds
5. Average realized price of copper decreased 16.1% to \$2.66 per pound

6. Cash costs decreased 4.9% to \$1.94 per pound of copper
7. Adjusted earnings before interest, taxes, depreciation, and amortization decreased 26.8% to \$725 million
8. Operating cash flow decreased 7.6% to \$525 million
9. Reported free cash flow of \$26 million, compared to a cash use of \$128 million in the year-ago period
10. Ended the quarter with \$2.12 billion in cash and cash equivalents, a decrease of 6% from the beginning of the quarter

Also, Barrick announced a 60% reduction to its quarterly dividend to \$0.02 per share as “a prudent measure to increase financial flexibility in light of current market conditions.” The dividend will be paid out on September 15 to shareholders of record at the close of business on August 31.

Is the rally warranted and can it continue?

It was a fairly weak quarter for Barrick, and its dividend reduction made it even worse, so I do not think the large post-earnings pop in its stock was warranted. With this being said, I do not think the rally is sustainable and I think the stock will underperform the market going forward for two primary reasons.

First, Barrick’s stock now trades at high valuations, including 22 times fiscal 2015’s estimated earnings per share of \$0.42, which is expensive compared with its five-year average price-to-earnings multiple of 12.7 and the industry average multiple of 16.6.

Second, gold prices remain under pressure, which will lead to further weakness in the third and fourth quarters for Barrick. It also seems like this weakness will carry over into 2016, which could spell disaster for some of the smaller players in the industry.

With all of the information provided above in mind, I think Foolish investors should avoid Barrick Gold for the time being, and only revisit the idea of an investment when it comes back down to more reasonable valuations and when gold prices recover.

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