



Is it Finally Time to Bet on Barrick Gold Corp.?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has been a fabulous destroyer of investor wealth for years. The stock is down more than 50% in the past 12 months, off 80% over the past five years, and down more than 65% in the last 15 years. With that kind of track record, why would anyone in his or her right mind even consider buying the stock?

Let's take a look at Barrick and find out.

Restructuring progress

Barrick is undergoing a major restructuring program designed to bring the company back to its roots of being a lean and nimble mining company. At the outset, very few analysts believed management could pull it off, but Barrick is making good progress in a very difficult market, and contrarian types are starting to take notice.

In the Q2 earnings statement Barrick said it is on track to cut \$50 million in general and administration expenses by the end of 2015, up from the earlier target of \$30 million. For 2016, the company is now targeting \$90 million in annualized savings, up from \$70 million.

On the capital expenditure side, Barrick reduced spending by \$240 million in Q2 and by \$300 million for the first six months of the year.

Balance sheet concerns

The operational cost cuts sound good, but they have to be put into context. Barrick's big challenge is getting its massive debt load paid down to a point where it can survive in a weak-commodity environment.

Barrick started 2015 with US\$13 billion in long-term debt. Management is trying to get that reduced by \$3 billion by the end of 2015, and it looks like they might actually pull it off.

As of the Q2 report, Barrick had already reduced the debt load by \$2.45 billion through streaming

deals, asset sales, and joint ventures. The company also used \$250 million in cash to lower the obligations. This puts the total reductions for the year at \$2.7 billion, and there are still divestitures that could happen before year-end to get the company to its target.

That still leaves a staggering debt load, but the company is moving in the right direction.

Barrick finished the second quarter with \$2.1 billion in cash on hand and had access to \$4 billion in credit facilities, so it has some firepower at its disposal.

Operating efficiency

All-in sustaining costs are expected to be US\$840-880 per ounce for 2015, down from the original guidance of \$860-895. That's pretty good when compared with most of its peers, but not great if gold has further to fall.

Should you buy Barrick?

Management is making good progress, but the company is still at the mercy of the bullion market. If gold prices do not recover meaningfully in the next couple of years, the company could be in trouble.

Having said that, gold bulls might want to consider taking a small position. The stock has sold off so heavily that any jump in gold prices should send the shares soaring.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/04

Date Created

2015/09/18

Author

aswalker

default watermark