Is Barrick Gold Corp. a Good Buy Yet?

Description

Gold may not be rising back towards $2,000 per ounce just yet, but all signs are say the price will continue to creep up higher. In the past month, gold has risen by nearly 5%, and has risen over 6% in the past three months.

There are two key factors that need to be considered with the latest gold increase: interest rates and the impact of this price change on gold producers.

Interest rates remain historically low, and there is a sentiment in the market that they will remain low at least until early next year. With such low rates, investors will seek out opportunities with potentially higher returns. As the price of gold increases, so too does the value of companies that produce the precious metal.

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is one of the unlikely benefactors of the yet-to-be-increased interest rates. Over the course of the past month, Barrick has fared particularly well, with the stock up nearly 15%. As a result, the stock is now just over $10.

Whether or not that makes Barrick a great buy for your portfolio, however, is something we need to take a deeper look at.

Losses are being erased, but there are still losses

Prior to this current gold rally, the metal hit a five-year low in July at under US$1,100 per ounce. A few years earlier the price was closer to US$2,000 per ounce. That is a significant drop in price that gold producers had to bear, and it finally seems that Barrick has managed to squeeze enough through savings to bring down the cost per ounce.

The company has cut dividends, sold some assets, and targeted other assets for sale with the hope of raising $2 billion in expenditure cutbacks for 2016. This is followed through with administrative cost savings of $50 million this year and a figure likely to be closer to $100 million next year.

In terms of a bottom line, the company still posted a loss, albeit a much smaller one, in the most recent quarter. Losses were only $9 million, which was a vast improvement over the $269 million loss in the same quarter last year.

Despite the rally and improvement in results, the company is still down considerably—30% more than where it was a year ago.

Barrick's debt

Barrick set a goal of shaving off $3 billion in debt for 2015. The company has come close to that figure through a number of deals and agreements, allowing Barrick to be at over 90% of the way to that stated goal.

From an overall debt situation, Barrick has a debt-to-equity ratio of 1.26. Even for an industry that is known for running large debts, this is an above-average level, which may be the reason why the company is putting a focus on reducing costs and improving efficiency.

In my opinion, if the current rally continues, there is no reason why Barrick could not continue to rise and reap larger revenues associated with higher gold prices, making the company a great option for any portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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