



3 Reasons to Watch Barrick Gold Corp. in 2016

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) doesn't often come up as a possible top pick for 2016, but it might be worthwhile to put the name on your radar as we wrap up 2015.

Here's why.

1. Turnaround efforts

Barrick finished 2014 with US\$13 billion in long-term debt. With gold still in a downward spiral, management knew the outlook wasn't good for this year and launched an ambitious plan to reduce the debt load by US\$3 billion before the end of 2015.

Pundits were skeptical that Barrick could pull it off, but as we head into the last few days of the year, it looks like the objective has been met.

To date, Barrick has announced asset sales, partnerships, and streaming deals that total more than US\$3 billion, and management expects to deliver US\$2 billion in cash flow improvements by the end of 2016. This is being achieved through staff reductions, lower capital spending, and improvements in productivity.

2. Low-cost production

Barrick produced 1.66 million ounces of gold in Q3 2015 and expects 2015 output to be more than six million ounces. Expenses have come down to the point where all-in sustaining costs are running at US\$771 per ounce, making Barrick one of the lowest-cost producers in the sector.

3. Positive cash flow

Barrick delivered Q3 2015 free cash flow of US\$256 million and adjusted net earnings of US\$131 million. If gold prices remain at current levels, the company is still capable of generating positive cash flow, so the downside risk should be limited going forward as long as gold prices don't take another nose dive.

Any surge in the bullion market next year would send free cash flow rising significantly, giving the company much more room to reduce the debt load. As an example, an average US\$200 rise in gold prices would generate more than US\$1.2 billion in additional cash.

Could gold prices move that much?

The outlook would suggest a \$200 move is not likely, but markets don't always behave as expected, and there are still economic and geopolitical threats out there that could erupt and send investors back into bullion.

Should you buy?

With the Fed now raising rates, gold is expected to remain under pressure, and that means Barrick is still a risky bet.

However, bullion bulls might want to keep a close eye on the stock. If the gold market catches a surprise tailwind, Barrick could rally significantly on the strength of the turnaround progress and finally end the nasty five-year trend.

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