



Barrick Gold Corp.: Is it Finally Time to Buy This Stock?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has been in the dog house for years, but the company might be setting up for a rebound in 2016.

Here's why.

Gold surge

The first week of the new trading year is shaping up to be one for the record books. Stocks in the U.S. had their worst opening day in decades and geopolitical tensions are hitting new highs in the Middle East and Asia.

Few people expected a gold rally in the first week of trading, but fears about growth in China are hitting stocks and pundits are starting to pull back expectations on further rate hikes by the Fed.

If the market starts to believe the Fed will go on hold, bullion could catch a strong tailwind in the next few months.

Gold has been relatively unaffected by global conflict in the past couple of years, but the row between Saudi Arabia and Iran has investors worried that total chaos could erupt in the Middle East.

In addition, North Korea has added fuel to the fire by claiming it had successfully tested a hydrogen bomb.

The result of all the bad news is a mini gold rally, and the longer it goes, the bigger it could get.

Barrick's turnaround efforts

Barrick regained some respect in 2015. The company set out an ambitious goal of reducing its massive US\$13 billion debt pile by US\$3 billion. The final results will come out in the Q4 earnings report, but the company looks like it hit the target using a combination of asset sales, streaming deals, and new partnership arrangements.

Management is also on track to deliver US\$2 billion in cash flow improvements by the end of 2016.

Production strength

Barrick produced 1.66 million ounces of gold in Q3 2015, and total output for the year probably topped six million ounces.

Efforts to reduce operating costs are making good progress. The company reported Q3 2015 all-in sustaining costs of US\$771 per ounce, which is one of the lowest production costs in the industry.

Cash flow

Barrick produced free cash flow of US\$256 million in Q3 2015 and adjusted net earnings of US\$131 million. That's not bad considering the difficult conditions in the bullion market.

As gold prices rise, cash flow will increase significantly given the massive production levels. For example, an average \$100 per ounce increase in gold prices for the year would boost revenues by US\$600 million.

At the time of writing, gold has already jumped \$25 per ounce in just three days.

Should you buy?

Barrick remains a risky investment. The debt level is still a concern and the latest tailwind behind gold prices might peter out very quickly, just as other mini-rallies have failed to follow through.

Having said that, the stock could see a significant rally if the market starts to believe gold has bottomed. If you are positive on the long-term outlook for bullion, it might be time to start adding Barrick to your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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