As Investor Sentiment Shifts, Is it Finally Time for Gold to Shine?

Description

In late 2011 gold peaked at approximately $1,900 per ounce and has since retreated steadily. Gold is trading at roughly $1,000 per ounce at this time. Coming off a period of record production and declining demand, where is the gold market headed from here?

The one positive in an environment of weakening commodity prices is that out of necessity, companies begin to look more closely at operational efficiencies and the expense side of the equation. Simply put, since revenues are declining, they must focus on reducing expenses in order to preserve the health of the company.

And we have seen this happen in a big way. Let's take a look at **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) for an example of this in action.

After years of overspending and poor returns, Barrick has been getting serious about improving operational efficiency and financial performance. The company is targeting achieving annual cost savings of $500 million, divesting underperforming mines, and has recently come to the market with an equity issue in order to improve its balance sheet.

Let's look more closely at the most recent quarter to see some of the improvements the company has made.

In the third quarter of 2015, the company reported that its all-in sustaining costs were $771 per ounce and full-year all-in-sustaining-cost guidance was reduced to $830-870 per ounce from the previous guidance range of $840-880 per ounce. Management has stated that production out of its top five mines (60-65% of the company's production) is expected to achieve a 2015 all-in sustaining cost per ounce of $700-725.

Total debt was reduced by 15% and the company was on track to achieve its $3 billion 2015 debt reduction target. At the end of the third quarter the company had reduced its debt by 15% from $13.1 billion to $11.2 billion, and when the company reports its 2015 results we should expect that debt will be at $10.1 billion. The debt-to-total-capital ratio now stands at 49.9%.

And last but not least, Barrick Gold was free cash flow positive to the tune of just under $260 million versus $26 million in the prior quarter.

This looks good, but there's one more thing. In all of this, we failed to recognize investor sentiment, which has clearly turned more cautious as investors are looking for a safe place to invest. The fundamentals of the gold market coupled with this shift in investor psychology means that gold stocks are looking good.

Barrick Gold is trading at a P/B of 0.9 times and has a six-month return of 14.93% and a three-month return of 7.3%.

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Date
2025/08/08
Date Created
2016/01/21
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