



Barrick Gold Corp.: Should Investors Back Up the Truck?

Description

Gold is enjoying a surprise rally to start 2016, and investors are now kicking the tires on the sector's top names to see which miners offer the best chances for a wild ride to the upside.

Let's take a look at **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) to see if it deserves to be in your portfolio.

Turnaround play

Barrick is a giant in the gold mining sector, but it is also one of the industry's top turnaround plays.

For years the stock has been an efficient destroyer of wealth. Previous management went on an ill-timed buying binge, acquiring overpriced assets at the top of the market in a bid to be the biggest player in the world with what turned out to be little regard for the effects on the balance sheet or investors.

That party resulted in a debt pile of US\$13 billion amid a market of falling prices for gold and copper, the company's two areas of interest.

By the start of 2015 it became clear that a new strategy had to be put in place, and the new executive team set out an ambitious plan that few analysts believed would succeed.

A year later, it looks like the 2015 goals were met, and the company is on pace to improve the situation even more in 2016.

Cost cuts and debt reduction

Barrick sold non-core assets, signed streaming deals, and forged new partnerships to unlock more than US\$3 billion that is being used to lower the debt load. That's an impressive feat in a difficult market, but there is more good news.

The company has worked hard to streamline its operations through a reorganization that included

significant reductions in the headcount at the corporate level.

Capital expenditures are also being reduced, and the company is on track to deliver US\$2 billion in cash flow improvements by the end of this year. Going forward, all new investment projects must meet a strict 15% return rate.

Production outlook

Barrick produced 1.66 million ounces of gold in Q3 2015 and the Q4 report will likely show total 2015 output of more than six million ounces. Recent asset sales will lower production in 2016, but Barrick is still going to produce a significant amount of gold.

Operating costs are moving in the right direction. All-in sustaining costs for Q3 2015 came in at just US\$771 per ounce, which puts Barrick as one of the lowest-cost producers in the sector.

Cash flow and earnings

The company delivered free cash flow of US\$256 million in Q3 2015 and net earnings of US\$131 million. Those are decent numbers considering the difficult environment.

Should you buy Barrick Gold?

The company is still sitting on a mountain of debt, and significant work remains to finally turn this elephant around. If you believe gold's latest rally is simply another head fake before another run to lower lows, Barrick is not the place you want to put your money.

However, contrarian types are looking at management's progress as a sign that the turnaround efforts are bearing fruit. If you think gold has finally bottomed, there is some serious upside potential for the stock, and this is probably a good time to starting adding Barrick to your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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