



Barrick Gold Corp.: Could it Surge Another 100%?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has doubled off its September 2015 lows, and investors are wondering if the stock can extend the run to much higher ground.

Let's see what's going on at the world's largest gold miner.

Financials

Barrick just reported Q4 2015 adjusted net earnings of US\$344 million, or US\$0.30 per share. Free cash flow came in at US\$387 million.

The strong performance capped off a busy year in which Barrick managed to reduce its US\$13 billion in debt by more than US\$3 billion through a series of assets sales, new partnerships, and streaming deals.

The company produced 6.12 million ounces of gold in 2015 at all-in sustaining costs (AISC) of US\$831 per ounce. That's the lowest cost structure among the big miners, and the numbers came in at the bottom of the company's initial guidance of US\$830-870 per ounce.

The fourth quarter saw production of 1.62 million ounces of gold at AISC of just US\$733 per ounce.

The company finished 2015 with a consolidated cash balance of about US\$2.5 billion.

Guidance for 2016 and beyond

Few analysts believed the company would pull off the US\$3 billion in debt reductions when the ambitious target was announced last year, but the results are in the books, and investors are more inclined to believe management on the latest plans.

Barrick intends to reduce long-term debt by another US\$2 billion this year through the sale of additional non-core assets and the creation of new partnerships. The company also plans to use free cash flow and part of the cash balance to pay down its obligations.

Barrick has less than US\$250 million in debt due before 2018, and about half of the existing US\$10 billion in debt isn't due until after 2032, so previous concerns about a possible cash crunch are a non-issue in the near term.

Production is expected to be 5-5.5 million ounces in 2016 at AISC of US\$775-825 per ounce. The lower output is a result of non-core assets sales that occurred last year. Further reductions in both output and AISC are expected in 2017. Barrick says production in 2018 will be 4.6-5.1 million ounces of gold at AISC of less than US\$700 per ounce.

Should you buy Barrick?

Gold prices are now above US\$1,200 per ounce, which means margins are starting to look pretty good given the attractive cost structure. Even at five million ounces, every US\$100 increase in the average price of gold translates into an additional US\$500 million in cash flow.

At current prices, Barrick is already a cash machine. If gold manages to continue its recovery, the vault is going to fill up very quickly, and a broad move by investors back into the sector could send the share price soaring much higher.

With the debt-reduction plan on track and a more positive gold environment shaping up, investors might want to consider starting a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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