



## Is it Time to Bet Big on Barrick Gold Corp.?

### Description

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) has surprised the market with a massive rally to start 2016, and contrarian investors are wondering if this could be the beginning of a longer-term recovery.

Let's take a look at the current situation to see if Barrick finally deserves to be in your portfolio.

### Strong financials

Gold miners have been hammered over the past five years as the price of the yellow metal plunged from US\$1,900 per ounce to below US\$1,100.

The difficult market forced the industry to restructure, and Barrick has pulled off one of the more impressive turnarounds in the sector.

The company reduced its debt by more than US\$3 billion last year and reduced operating costs to the point where it is now the lowest-cost producer of the large miners.

The company mined 6.12 million ounces of gold in 2015 at all-in sustaining costs (AISC) of US\$831 per ounce. In the fourth quarter, Barrick produced 1.62 million ounces at AISC of just US\$733 per ounce.

Fourth-quarter adjusted net earnings came in at US\$344 million, or \$0.30 per share. That's pretty good given the weak conditions in the market, and it's a nice turnaround from the ugly numbers investors have seen in recent years.

The most impressive result that came out of the Q4 report was the US\$387 million in free cash flow.

This represents the money that is left over after all of the capital expenditures are covered, and the positive number means the company has extra funds that can be used to pay dividends, reduce debt, buy back shares, or make strategic acquisitions.

## Big numbers coming in 2016?

Gold has surged US\$180 per ounce in 2016. If the price gains hold, Barrick could deliver some very impressive numbers this year.

Management plans to lower the debt level by another US\$2 billion in 2016. Free cash flow, assets sales, and additional new partnership agreements will all play a role in the process.

The company also began the year with US\$2.5 billion in consolidated cash, so there is ample liquidity to reduce the obligations. The remaining US\$10 billion in debt is still significant, but less than US\$250 million is due before 2018.

Production is expected to be 5-5.5 million ounces in 2016 at AISC of US\$775-825 per ounce. Output will be lower than 2015 as a result of assets sales.

Production and AISC are expected to drop again next year, and 2018 is projected to deliver production of 4.6-5.1 million ounces at AISC of less than US\$700 per ounce.

## Should you buy Barrick?

The gold rally is starting to look like it might have legs, and that bodes well for Barrick and its investors because the company's large production profile and falling cost structure are setting the firm up for a substantial surge in revenues.

How much?

At production of five million ounces, a US\$200 gain in the price of gold translates into an extra US\$1 billion in cash flow. That's a lot of extra funds that can be used to pay down debt.

Risks still remain, and a pullback in gold will send the stock sharply lower, but if you believe gold has bottomed, Barrick looks like a compelling bet right now, even after the strong move over the past two months.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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