



## Barrick Gold Corp.: How High Could it Go?

### Description

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) continues to hit new 2016 highs, and investors who thought the rally was about to end are now wondering if it is actually just beginning.

### Fed boost

Barrick has risen 90% in 2016 on the back of a surprise surge in the price of gold. This wasn't supposed to happen, but the markets rarely act as expected.

What's going on?

Back in December, most people expected the U.S. Federal Reserve to hike interest rates four times in 2016. That was negative for gold because it would have led to a continued strengthening of the U.S. dollar, which makes gold more expensive for holders of other currencies.

When January arrived, the stock market suddenly sold off on renewed concerns about China's economy. Investors started looking for a safe place to park some cash, and gold picked up a bit of a tailwind as a result.

Analysts also began to reduce their expectations for U.S. rate hikes, which pushed the dollar lower and gold higher.

In recent days, the gold rally began to falter as a recovery in equity markets removed some of the fear factor, and rumours began to swirl that the Fed might actually stick to its plan and hike the target rate at the March meeting.

On March 16, the market found out that isn't in the cards—for now.

The Fed left rates unchanged and said 2016 is likely to see two rate hikes instead of four. Markets reacted by pushing the dollar lower and gold shifted back into rally mode.

## Negative rates

Another reason for gold's recent strength lies in the fact that countries around the world are moving to negative interest rates. This is positive for gold because the one big beef against the precious metal is the fact that it doesn't pay you anything. Suddenly, that doesn't look so bad when investors around the world are looking at negative returns from government bonds.

## How high could Barrick go?

Management is orchestrating a turnaround that few pundits believed would be possible. The company reduced its US\$13 billion debt pile by US\$3 billion last year and has lowered all-in sustaining costs below US\$800 per ounce; it has a target of less than US\$700 per ounce by 2018.

Suddenly, the bloated dog of the mining sector is starting to look like a lean, mean, free cash flow machine.

And that's where the upside potential lies.

Investors don't like the gold market because they can't get their head around the metal's value proposition, and the price can be volatile. Those are valid points.

However, investors DO understand free cash flow, and at a gold price of US\$1,200 or higher, Barrick is kicking off a lot of cash.

In the Q4 2015 earnings report, Barrick said it generated US\$387 million in free cash flow. That was for a period when gold was about \$200 per ounce lower than the current price.

Production for 2016 is expected to be 5-5.5 million ounces. If the \$200 price gain holds, Barrick is going to see an extra US\$1 billion flow into the coffers this year.

The stock is up 90% on the back of a 20% rise in gold, so you can see how much torque there is when gold prices increase. As more investors become comfortable with the gold story, interest in the miners should pick up steam, and that could support an even larger move.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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