Barrick Gold Corp.: Is This the Right Time to Buy?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is up 75% in 2016, and investors who missed the surge are wondering if the stock could go higher.

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

Turnaround efforts

Barrick is one year into a turnaround plan that few pundits believed would succeed.

The company began 2015 burdened with US$13 billion in debt. As gold prices continued to tumble, management realized something drastic had to be done and launched a plan to lower the debt level by US$3 billion by the end of the year.

Considering the difficult market conditions, the target appeared a tad ambitious, but Barrick managed to pull it off through a series of asset sales, new partnerships, and streaming deals.

The company has also made great strides in its efforts to reduce costs. Headcount at the corporate level dropped by 50% and all-in sustaining costs (AISC) at the company's mines fell below US$800 per ounce. That's good enough to make Barrick the low-cost producer among the big miners.

Moving forward, the story looks even better. Barrick plans to reduce the debt load by an additional US$2 billion in 2016 and is targeting AISC of less than US$700 per ounce by 2018.

Cash flow effect

Barrick generated US$387 million in free cash flow in Q4 2015. That's a solid performance given the weakness in the price of gold. Since then gold has rallied as much as US$200 per ounce, and that is where the story starts to get interesting.

Barrick expects 2016 production to be 5-5.5 million ounces. If gold prices can manage to hold a $200 per ounce gain, Barrick is looking at a minimum US$1 billion in additional revenue.

Market outlook

So where is gold headed?

The yellow metal has rallied this year on the back of global economic uncertainty and reduced rate-hike expectations by the U.S. Federal Reserve. Most market watchers were calling for four increases in 2016, but weak economic data out of China and the steep plunge in equities forced the Fed to step back a bit in March. Now, analysts are looking for two hikes instead of four, and that should bode well for gold because it would put more pressure on the U.S. dollar and lower the opportunity-cost of holding the precious metal.

While the U.S. is pondering rate hikes, many of the world's governments are moving to a negative-rate environment. That can have a big impact on demand for gold.

Why?

The knock against gold is the fact that it doesn't pay you anything. With government bond returns moving to negative positions, gold suddenly looks a lot more interesting because earning nothing is more attractive than paying someone to hold your money.

Another factor is the safe-haven appeal in times of political and economic uncertainty. At the moment, the world doesn't look like a particularly safe place, and some pundits believe a new financial crisis is on the way. Whether or not another financial meltdown is imminent is anyone's guess, but growing fears of an economic disaster will support demand for gold.

Should you buy Barrick?

The stock is taking a bit of a break after the big run, and gold investors are trying to decide if the surge was overdone or just the first step in a bigger move. Where gold goes from here is impossible to call, but Barrick is making good progress on its turnaround efforts and generating significant free cash flow at current prices. If you believe gold is headed higher over the long term, Barrick looks attractive.

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Date
2025/08/03
Date Created
2016/03/30
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