



Is Barrick Gold Corp. a Good Investment?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is one of the few gold companies that has managed to take advantage of prolonged low gold prices to put real focus on reducing costs, becoming more efficient, and making a concerted effort to reduce debt.

Here's a look at how Barrick is doing, what the company has done to rein in costs, and if it is now a good investment.

How's Barrick doing?

Barrick currently trades at \$17.66. Year-to-date, the stock is up by 72%, although much of this gain is effectively erasing the losses it sustained in the past few years. Looking back over the course of a full 12-months reveals that Barrick's stock price is still down by nearly 8%.

While Barrick's surge in stock price is impressive, the real feat is what the company has accomplished in the past year in terms of debt reduction, operational cost cuts, and efficiency improvements.

Lowering debt, increasing efficiency

Barrick is in the midst of a turnaround and so far is doing a great job. Looking back a year, the company had a staggering US\$13 billion in debt, which coincidentally was nearly the market cap of the company for part of that year. As an aside, it is not uncommon for gold producers to carry large debt loads, but Barrick had one of the largest, which is what makes this next part so impressive.

Despite low gold prices and immense debt, Barrick underwent an ambitious plan to reduce debt by US\$3 billion, nearly 25%, by the end of the year. Amazingly, Barrick managed to meet this goal through a series of sales, partnerships, and deals.

Barrick successfully reduced costs last year. It reduced corporate staffing levels by 50% and all-in sustaining costs below US\$800 per ounce. By bringing costs under control, Barrick effectively became one of the most efficient gold producers on the market in a relatively short time.

The impact of these savings is far reaching for Barrick as the price of gold has since risen significantly, meaning those savings can provide a major boost to revenue. By way of example, only just a few months ago the price of gold was hovering near US\$1,060 per ounce. The price is now over US\$1,230. Between lowered costs and a rise in gold prices, Barrick suddenly has an extra US\$300 per ounce.

Looking ahead to the rest of 2016

Gold stocks have had a particularly rough time over the past few years, and the recent rally can be interpreted in any number of ways. What can be said is that the concept of using gold as a safe store of wealth, which has been absent or minimized for the past few years, is starting to gain traction again, albeit slowly.

Another factor is the potential for negative positions on government bonds and the overall health of the economy, which will reinforce the metal's safe-haven status. Over the long term, anything that helps the price of gold will help Barrick.

The key point for Barrick is that it needs to continue doing what has been done so admirably in the past year—slash debt, reduce costs, and become more efficient.

The company has plans to continue reducing debt by a further US\$2 billion this year and all-in sustaining costs by US\$100-700 by the end of the year.

While metals remain an extremely risky investment, there is something to be said about the improvements that Barrick has made, which could warrant a small position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Date

2025/08/02

Date Created

2016/04/01

Author

dafxentiou

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