

## Barrick Gold Corp.: Should You Own This Stock?

### Description

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) is up 85% in 2016, and investors are wondering if the rally will continue.

Let's take a look at the current situation to see if this is a good time to add Barrick to your portfolio.

### Gold market

Gold is a unique commodity in that it has very little value outside of its jewellery appeal. In fact, the biggest beef against the precious metal is that it doesn't pay you anything to hold it, and if you actually have possession of your gold, you incur costs to keep it safe.

With no practical value, gold is influenced by interest rate moves and subject to the whims of the fear trade.

The precious metal has surged in 2016 because expectations of aggressive rate hikes by the U.S. Federal Reserve have scaled back. Originally, the market was looking for four increases this year. Now the pundits are calling for two or less.

This supports gold because it takes some of the air out of the high-flying U.S. dollar, making gold more affordable for holders of other currencies.

Lower interest rates reduce the opportunity cost of holding gold, and while the U.S. is starting to push rates higher, other governments are heading in the other direction, and some are even moving to a position of negative rates. In that scenario, gold suddenly looks pretty good.

Why give the government \$100 when they promise to only give you \$99 back? You might as well buy gold.

The fear trade is another aspect to the gold market. In recent years investors have become relatively complacent when it comes to large-scale political or financial risks. Terror attacks, wars, and a potential meltdown in China are all on the minds of the market right now, but there hasn't been a big rush to gold as a place to hide.

Will that change? We don't know, but some of the smart money is seriously concerned, especially about China, and that's one big elephant that can wreak havoc if it rolls over.

### Barrick's turnaround

Barrick has pretty much been the poster boy for wealth destruction in the mining space, but the company is in the middle of a massive turnaround effort, and pundits are starting to believe in the story once again.

Last year Barrick managed to lower its US\$13 billion debt pile by US\$3 billion. This year it expects to shave off another US\$2 billion.

Operational improvements are also looking good. The company has streamlined its corporate structure and all-in sustaining costs (AISC) are now below US\$800 per ounce. That makes Barrick the low-cost producer among the big miners, and management believes AISC will be below US\$700 by 2018.

Free cash flow in Q4 2015 came in at US\$387 million, and the numbers for Q1 2016 could be even better given the significant rise in the price of gold this year.

### **Should you own Barrick?**

Barrick is targeting production of 5-5.5 million ounces in 2016, so a US\$200 per ounce increase in the average price of gold would add an extra US\$1 billion to the coffers. With that much torque, there is big upside opportunity in the stock if gold decides to extend the rally.

I wouldn't back up the truck, but it might be worthwhile to add a bit of Barrick to the portfolio if you think gold has bottomed.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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aswalker

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