



Barrick Gold Corp.: Could This Stock Hit \$30 in 2016?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) continues to move higher, and investors who missed the surprise rally are wondering if there is more upside on the way.

Let's take a look at the mining giant to see if it deserves to be in your portfolio.

A turnaround story

Last year Barrick launched an ambitious plan to reduce its massive US\$13 billion debt pile by US\$3 billion. Few pundits thought the company could succeed given the troubled state of the market and the firm's history of mismanagement.

As the year progressed, investors began to see some light at the end of the tunnel. Barrick managed to find buyers for non-core assets, negotiated streaming deals on some production, and raised cash through new partnerships.

In the end, the company hit its debt-reduction targets, and the market is starting to believe the company will continue to make progress. This year, Barrick is looking to shave another US\$2 billion off the debt load, and that should be attainable given the recent surge in gold prices and the return of investors to the mining sector.

Cost control

Lowering debt is one aspect to the recovery at Barrick, but the more impressive part going forward is the company's cost structure.

Barrick produced 6.12 million ounces of gold in 2015 at all-in sustaining costs (AISC) of US\$831 per ounce. In Q4, the company produced 1.62 million ounces of gold at AISC of \$733 per ounce, making it the low-cost producer among the big miners.

For 2016, production guidance is set at 5-5.5 million ounces at AISC of US\$775-825 per ounce. The lower output is the result of asset sales over the past year.

By 2019, Barrick believes AISC will drop below US\$700 per ounce.

That's pretty impressive, and the margins are already attractive at the current gold price of US\$1,250 per ounce.

Free cash flow

Barrick recorded 2015 free cash flow of US\$471 million, with \$387 million coming in the fourth quarter. It was the first time in four years that free cash flow was in the black.

With gold prices as much as US\$200 higher than they were in Q4, the numbers for Q1 2016 should be good, and a sustained rise in the price of gold over the course of the year, or beyond, is going to start generating some serious cash given the company's large production.

Should you buy?

The stock is up more than 100% year-to-date, so the easy money has been made, but we could be in the early innings of larger recovery.

Why?

The company's costs are falling, and with production of five million ounces, a mere \$200 jump in the average price of gold over the year would add a cool US\$1 billion to the coffers. That's a lot of torque, and a sustained move higher in gold prices could potentially push Barrick up another 50% toward the \$30 mark by the end of the year.

I wouldn't back up the truck, but if you believe in the gold story, Barrick is a solid pick.

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1. Investing
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Author
aswalker

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