Why Barrick Gold Corp. Is a Smart Investment

Description

It's turning out to be the year that gold producers have been waiting for for more than five years. After bottoming out below US$1,100 per ounce, gold prices this year have appreciated by nearly 20% to over US$1,300 per ounce.

The metal has been used as a store of wealth for millennia, but the commodity rallies of the past few years, along with the fluctuations in currency levels and the emergence of digital currencies such as bitcoin, have left investors with a myriad of investment options that were all appreciating faster than the price of the metal.

In what appears to be a partial return to prior ways, gold has started to gain traction as a store of wealth again, and gold companies are starting to reap the rewards of becoming efficient and patiently waiting over the past few years.

Once such company is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX). Here's why Barrick is the gold company that belongs in your portfolio.

Barrick is outperforming the TSX this year–with no end in sight

When the gold market dropped in 2011, Barrick was trading near $50 per share. As the price of gold came down, so too did Barrick's stock price; it bottomed out below $8. As the gold market started to improve late last year, so did Barrick.

So far in 2016, the stock is on a tear, up by over 130%. While this improvement has not erased all of the losses sustained over the past five years, it has outperformed other gold stocks and nearly all stocks on the market. So, despite being the best-performing stock, Barrick is still trading at a discount compared to where the stock was the last time the gold market was hot.

Barrick is a very different company now

The collapse of gold prices in 2011 caused gold producers to take a serious look at expenses and operational efficiency. Remember that during the golden days, Barrick and other competitors were making extremely handsome profits on mines.

The situation today is very different. Gold producers are running much more disciplined operations, with all-in sustaining costs under constant pressure to fall below US$800 per ounce. By comparison, during the golden days the costs were upwards of $1,200 per ounce.

Gold producers are known to carry large debts. The costs of setting up a mine are immense and, more often than not, companies need to finance a new mine to get it operational before it starts contributing to the bottom line. Barrick has set an example in this regard as the company has made it a goal to actively reduce debt, either through efficiencies or asset sales.

Last year Barrick had a debt of $13 billion and made a commitment to slash it by $3 billion over the course of the year. Impressively, Barrick met this goal and has set a similar objective for this year.

Efficiencies and debt reduction can only go so far, but they can work wonders. Barrick recently posted quarterly results that, when viewed in comparison with last year, showed a decrease in revenue. Increased efficiencies within the company as well as reduced costs mean that the decreased revenue results in an increase to earnings.

Barrick's investors are in good company

George Soros, the billionaire investor behind Soros Fund Management, came through with a whopping US$263.7 million investment in Barrick this quarter. That makes Soros an owner of 19.4 million shares of the company for a 1.7% stake in the gold miner.

So far, Soros's investment is paying off. Barrick is up over 125% for the year, and gold prices are up approximately 20% for the year, too.

In my opinion, an investment in Barrick is a good idea for those looking to diversify with a mining company. While other commodities continue to suffer with weak prices and demand, gold finally seems to be emerging from the slump, and investors in Barrick will be handsomely rewarded from the company's growth and cost discipline.

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