

Barrick Gold Corp.: Should You Buy the Pullback?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has been on a tremendous run in 2016, but recent weakness in the price of gold is forcing the miner to give back some of the gains.

Is the recent sell-off an opportunity to buy?

Let's take a look at Canada's largest gold mining company to see if it deserves to be in your portfolio.

Turnaround efforts

A year ago Barrick launched a turnaround plan that few market watchers believed would succeed.

The company was carrying US\$13 billion in debt, gold prices were falling, and Barrick had a dismal track record of delivering on its promises.

A year later, things are very different and investors are starting to believe in the company once again.

What happened?

Barrick sold non-core assets, negotiated streaming deals, and formed new partnerships in a series of moves that enabled the company to exceed its 2015 goal of reducing debt by US\$3 billion.

This year the company plans to shave off another US\$2 billion, and indications to date suggest the objective will be met.

Barrick is also making good progress on its efforts to return the company to its roots as a nimble and profit-focused firm.

Management slashed headcount at the corporate level, and Barrick's production costs are falling at an impressive rate.

In fact, Barrick's all-in sustaining costs (AISC) in Q1 2016 came in at US\$706 per ounce, down 24% compared with the same period last year. The miner is now the lowest-cost producer among the big gold names.

Expected AISC for all of 2016 have been lowered to US\$760-810 per ounce based on output of 5-5.5 million ounces.

Q1 earnings came in at US\$127 million, and Barrick generated \$181 million in free cash flow during the three months.

Over the next three years Barrick is hoping to bring AISC below US\$700 per ounce. If gold remains above \$1,200 per ounce, the company is looking at some decent margins.

Gold outlook

Gold rallied through the first part of 2016 as the market reset expectations for rate hikes in the United States. The original estimates saw four moves coming this year. Now the debate is whether there will be two or less.

Stronger economic indicators are giving the rate bulls more confidence, and that's why gold is in retreat. For the moment, the downward trend looks set to continue.

The bigger picture might be different. Many countries are moving to a negative rate environment, and that situation makes gold an attractive asset. Why pay the bank to hold your money? You might as well buy gold instead.

The gold rally could also resume on renewed fears of a financial meltdown in China. A few months ago this seemed imminent. Today, the media outlets are focused on other issues, but the underlying risks haven't changed.

Should you buy?

Barrick is now a low-cost producer with huge output and has generated positive free cash flow for four straight quarters. As the turnaround efforts continue, the stock should attract more investors.

Billionaire George Soros bought a large position during the first quarter of this year.

At the end of the day, you have to be a bullion fan to buy this stock. If you are in the camp that believes gold is headed higher, Barrick should be a top consideration on further weakness.

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