Barrick Gold Corp.: Up 140% and Still a Great Bargain

Description

Shares of **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) have risen by an incredible 144% year-to-date, making for the best rally by a gold producer in over five years. Whether or not this growth level is sustainable is questionable, but before considering that question, let's take a look at the conditions that led to this situation.

Back in 2011, the price of gold hovered near US$1,900 per ounce. Gold producers like Barrick were making huge profits despite high costs. When the price of gold came crashing down, it stayed down. As recently as a few months ago, the price of the precious metal was under US$1,100 per ounce, which put incredible pressure on Barrick and other producers to slash costs, reduce debts, and become more efficient.

Debt reduction and efficiency efforts

Gold producers are well known for taking on a significant portion of debt as setting up a mining operation involves a lot of resources and capital to become operational. Roughly one year ago, Barrick had nearly US$13 billion in debt and was running a higher debt load than any of its peers.

The company had to do something and decided to institute a turnaround plan focused on slashing costs, reducing debt, selling higher-cost assets, and becoming more efficient; one year later it seems to have worked.

By the close of 2015, Barrick had slashed debt down by US$3 billion and set a target to reduce debt by a further US$2 billion this year. Barrick has reduced that debt this year by over $840 million so far and is likely to meet that yearly target.

One measure by which gold producers are measured is through all-in sustaining costs. During the time period leading up to the collapse in prices back in 2011, most gold producers had an all-in sustaining cost between US$1,100 and US$1,200 which–given the spot price of an ounce of gold–seemed like a healthy margin. Once the price of gold went to sub-US$1,200 however, gold producers realized the need to become more efficient.

To this effort, Barrick announced that in the most recent quarter the company got all-in sustaining costs down to US$706 per ounce, becoming one of the most efficient, if not *the* most efficient, gold producer on the market. Given that gold prices have rallied significantly to nearly US$1,300 per ounce, those efficiencies are starting to bear fruit for Barrick.

While Barrick's recent quarterly results did show a drop in revenue, the impact of the reduction in debt as well as the lowered costs through efficiencies saw it post higher earnings. The company still plans to produce up to 5.5 million ounces of gold this year, despite offloading some assets last year.

Barrick remains, in my opinion, one of the better options for investors looking at a metals company. Barrick has become an example for other gold producers to follow, and current investors will note the growth of the stock over this year as evidence of that.

While the stock is outperforming the market and is on an absolute tear this year, the current price of $24.86 is still shy of the $45 per share we saw when gold was priced much higher.

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