Barrick Gold Corp.: Is the Rally Just Beginning?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is already up 150% in 2016, and investors who missed the rally are wondering if more gains could be on the way.

Let's take a look at the current situation to see if the world's largest gold miner deserves to be in your portfolio.

Gold market

Gold is above US$1,300 per ounce again, and it could go higher as a number of supportive factors begin to line up.

The latest surge comes on the heels of a decision by the U.S. Federal Reserve to scale back plans for interest rate hikes. At the start of the year, pundits expected the Fed to raise its target rate four times in 2016. Now the market is pricing in two moves or even less, and that is putting pressure on the U.S. dollar. Gold prices generally rise when the greenback retreats.

Another factor driving gold higher is the growing number of countries shifting to a negative-rate environment. Japan and several European countries are in a situation where investors have to pay the government to hold their money. Yes, that's right. You lend the government $100 and it promises to give you $99 back. The big knock against gold is the fact that it doesn't pay you anything to hold it, but in a negative-yield world that starts to look pretty attractive.

Fear is the final ingredient in the gold equation. Investors are getting nervous again as concerns mount around the coming Brexit vote, a potential financial meltdown in China, and continued global security threats. Gold is perceived to be a safe-haven investment and demand rises when people start to feel insecure.

As we saw last month, the market can change its mood very quickly on all of these factors, but for the moment the trend looks positive for gold.

Barrick's turnaround

Barrick is one year into an impressive turnaround, and rising gold prices are providing a helping hand.

Barrick reduced its massive US$13 billion debt load by US$3 billion last year through a series of streaming deals, new partnerships, and asset sales. The success surprised analysts given the ugly state of the market.

This year the company plans to cut another US$2 billion in debt, and all indications to date suggest Barrick will easily hit or exceed the target.

Barrick is also doing a great job of lowering costs.

All-in sustaining costs (AISC) for Q1 2016 came in at US$706 per ounce, down 24% compared with the same period last year. Full-year guidance is for production of 5-5.5 million ounces at AISC of US$760-810 per ounce. This makes Barrick the low-cost miner among the large gold producers. Over the next three years Barrick believes it can get AISC down to US$700 per ounce.

The company has generated positive free cash flow for four straight quarters, and the Q2 numbers are expected to extend that trend.

Is it time to buy?

Barrick is highly levered to rising gold prices, and the stock will continue to recover as long as gold moves higher.

At the time of writing, gold is trading above US$1,300 per ounce. With AISC at such low levels Barrick is looking at some sweet margins, and the generation of strong free cash flow is attracting investors who traditionally aren't fans of mining companies.

The numbers look good, but you still have to believe gold is headed higher to buy this stock. For investors who fall into that category, Barrick should be a top consideration for their portfolios.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/03

Date Created
2016/06/16
Author
aswalker