

Does Barrick Gold Corp. Deserve to Be in Your Portfolio?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) has caught the attention of some of the world's top investors.

Let's take a look at why George Soros and others are buying Barrick Gold.

Turnaround story

Barrick launched a turnaround plan last year that few pundits believed would succeed.

The company set out a goal to reduce its staggering US\$13 billion debt load by US\$3 billion amid a market of falling gold prices and little interest in mining properties.

Despite the difficult conditions, management pulled it off through a series of new partnerships, streaming deals, and non-core asset sales. This year the company wants to lower debt by an additional US\$2 billion, and early indications suggest the target will be easily met or even exceeded.

Cost reductions

A stronger balance sheet is only one part of the puzzle.

Barrick is also making good progress on its efforts to reduce costs across the business. Head count has been streamlined, and the company is driving all-in sustaining costs (AISC) down to the point where the company is now the lowest-cost producer among the big miners.

In Q1 2016 Barrick produced 1.28 million ounces at AISC of US\$706 per ounce. The company is targeting 2016 production of 5-5.5 million ounces at AISC of US\$760-810 per ounce and expects to get AISC below US\$700 over the next three years.

Free cash flow

Investors like to see companies that deliver consistent profits. That hasn't been the case for the miners for quite some time, but Barrick has generated four straight quarters of positive free cash flow, and the trend looks set to continue.

Gold market

Gold has enjoyed a nice rally in 2016, and there are indications the run could have legs.

Reduced expectations for rates hike by the U.S. Federal Reserve are the main driver behind the surge. Higher rates tend to be positive for the U.S. dollar and negative for the price of gold. Most analysts thought 2016 would bring four rate increases. The current consensus is for two moves or even fewer, and further negative sentiment could put more pressure on the dollar.

The fear trade is also playing a role in the gold market. Concerns over the Brexit vote have provided support in recent weeks, and investors are also seeking a safe haven on worries that China's debt bubble could trigger another financial meltdown.

The Brexit will be sorted out in the coming days. The Chinese issue is likely to linger.

Another factor is the global shift to negative rates. Many countries are now in a situation where investors have to pay the government to hold their money. In that scenario, gold starts to look like an attractive investment alternative.

Should you buy?

A bet on Barrick requires a belief that gold is beginning a long-term recovery. If you are in that camp, the stock still looks attractive despite the big run.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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