Barrick Gold Corp.: Should You Buy the Dip?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) has pulled back in recent days, and investors who missed the stellar run this year are wondering if this is a good opportunity to buy the stock.

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

Gold prices

Gold has pulled back from its recent high amid a flurry of profit taking and a media-induced sense in the markets that the financial world is suddenly on solid ground again.

It's amazing how quickly sentiment can change.

A few weeks ago, the world was on the brink as investors pondered the potential impact of the Brexit vote. Today the U.S. markets are hitting all-time highs and everything is suddenly rosy again.

Or is it?

Italian banks are in big trouble, the people of France are calling for a Frexit, China's debt bubble remains a ticking time bomb, and the "smart" money is stampeding into government bonds at an unprecedented rate.

What does this mean for gold?

Gold is viewed as a safe haven in times of financial turbulence. An eerie calm has hit the global market in recent days, but things could quickly reverse course on more bad news out of Europe.

Regarding China, the country's debt situation is probably the biggest elephant sleeping in the tea shop right now, and that problem isn't going away anytime soon.

If volatility returns, and I suspect it will, gold could catch a new tailwind.

The big beef against gold is the fact that it doesn't pay you anything to own it. This is certainly a negative when there are safe, fixed-income options available that pay a decent interest rate.

As more countries around the globe move to negative rates, gold is suddenly looking like a good place to stash some cash. It makes sense. Why would you pay the government to hold your money? You might as well buy gold. For the moment, the trend toward negative rates is expected to pick up pace.

Gold is priced in U.S. dollars, and many countries have seen their currencies plummet against the dollar in recent years. In those countries, gold has been a valuable way to protect wealth. Many of the big losers have been countries in emerging markets, but the Canadian dollar and, most recently, the British pound have also taken it on the chin. There are a lot of people in the U.K. right now who wish they had bought some bullion before the Brexit vote.

Whether or not gold has peaked is anyone’s guess, but the current conditions in the global market suggest more gains could be on the way.

Barrick’s turnaround

Barrick has a history of being a massive destroyer of investor wealth, but the miner looks like it has finally learned a lesson and is turning things around.

The company cut its US$13 billion debt load by US$3 billion last year and is on track to shave off another US$2 billion in 2016. At the same time, cost cuts and operational improvements have driven all-in sustaining costs (AISC) down to the lowest levels in the industry.

Barrick produced 1.28 million ounces of gold in Q1 at AISC of just US$706 per ounce. Guidance for all of 2016 is for 5-5.5 million ounces at US$760-810 per ounce.

Free cash flow has been positive for four straight quarters, and that trend looks set to continue given the strong gains in the price of gold this year.

Is it time to buy or sell?

Barrick has enjoyed a massive run, and investors who had the guts to get in when the stock was below $10 might want to consider taking some profits. It’s simply the prudent thing to do right now.

Buyers of the stock at the current price have to believe gold is still in the early innings of a multi-year rally. If you are in that camp, Barrick should be on your radar, and a summer pullback could present a good opportunity to start a position in the name.

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