Why Barrick Gold Corp. Is on My Watch List

Description

If someone had told you last year that one of the top-performing stocks of 2016 would be a gold producer, you would have laughed. That's just how much the precious metals market has changed over the past year.

Last year gold producers were stuck in what was the fourth consecutive year of weak gold prices. After topping US$1,900 per ounce back in 2011, gold prices dropped considerably over the next few years, stopping at the sub-US$1,100 per ounce level last year.

Gold producers felt this considerably as the prolonged drops in price forced gold producers to make difficult decisions, including shuttering facilities, reducing staff, and looking for efficiencies along the way.

Fortunately, gold prices started to turn around late last year and have been on a rally since then. The rally has been fueled by a number of events.

One gold producer that has benefited considerably from this latest rally is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX). Here's a look at what the company has, how it continues to do to boost revenues, and why Barrick would make a great fit for your portfolio.

Barrick has come a long way in a year

Barrick was a very different company last year. The company held US$13 billion in debt, which was considerably higher than any of the company's peers and unsustainable. To make matters worse, gold prices were still at lows not seen in nearly a decade, leaving investors wondering if a turnaround was even possible.

Last year, Barrick engaged in an aggressive turnaround plan that was focused on getting debt down to a manageable level and making the company more efficient. As of the start of this year, Barrick has managed to reduce that debt by $3 billion and set a target of a further $2 billion in reductions for this year.

As of the second quarter, that debt is now down to $9 billion and still dropping. Barrick president Kelvin Dushinsky even commented that the company could be completely debt free within a decade.

Barrick managed to do this due to a combination of cost-cutting, efficiency improvements, and asset sales.

While Barrick maintains that further asset sales could be on the table to help pay down the debt, it's the efficiency part that impresses me the most. In the most recent quarter Barrick managed to get all-in sustaining costs down to an impressive US$786 per ounce. Consider that for some of Barrick's competitors, this figure is upwards of US$1,000, so this puts Barrick in an advantageous position.

On the cost-reduction front, Barrick reduced direct mining costs by 17% thanks in part to an emphasis on labour and consumables cost reductions over and above other efficiencies that Barrick continues to implement on the operations front.

The best part of all of this is that as Barrick becomes more efficient, margins increase. Factor in a 27% spike in gold prices over the past year, and you can begin to realize how good of an investment Barrick is becoming.

How far can Barrick go?

This is the real question. The stock is already one of the best-performing companies on the market this year–up by over 120%. As impressive as this sounds, the stock has actually retreated a bit over the past few weeks, having been up over 150% for the year just this past summer.

Gold prices have remained strong, fueled by investor fears over the Brexit vote fallout, impending U.S. election, the ongoing speculation relating to interest rate increases, and changes in the price of oil. In other words, we are witnessing a return to gold as a store of wealth in uncertain times. This can only push gold prices and, by extension, Barrick up further.

In my opinion, Barrick remains a great option for those investors looking to diversify into the precious metals market. Barrick remains committed to debt reduction, and the increased margins and revenues that will come as a result of that reduction will keep investors more than pleased.

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