Barrick Gold Corp.: Is This Stock the Best Way to Play the Gold Rally?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) has a history of being a great destroyer of investor wealth, but efforts to turn the company around are starting to make the miner attractive again.

Let’s take a look at the mining giant to see if it deserves to be in your portfolio today.

Better balance sheet

Barrick began 2015 with an astounding US$13 billion in long-term debt. Gold was still falling, and investors were starting to prepare the company’s obituary.

As a result, it wasn’t a surprise when the market paid little attention to the company’s announcement of an aggressive turnaround plan, but by the end of last year people were starting to believe it might be possible.

Why?

Barrick managed to reduce its debt load by US$3 billion through a combination of asset sales, new partnerships, and streaming deals. This year, the company is well on its way to shaving off another US$2 billion in debt, and more is in the cards for 2017.

Improved operations

Management has also done a good job of making Barrick more efficient. The company has reduced costs to the point where it expects all-in sustaining costs (AISC) for 2016 to be US$750-790 per ounce on production of 5-5.5 million ounces.

That makes Barrick the low-cost producer among the big miners and sets the company up for some strong margins at current gold prices.

Cash is king

Free cash flow for Q2 2016 came in at US$274 million. This was the fifth straight quarter the metric was positive. Given the size of the company’s production, Barrick could start to pump out some impressive profits if the gold rally continues.

Gold outlook

Gold took off this year as a result of lower expectations for interest rate hikes in the United States.

The U.S. Federal Reserve was initially targeting four moves to the upside in 2016. That plan was derailed by weak data, a slumping Chinese economy, and the surprise Brexit vote.

Now, the market is expecting just one rate hike by the end of the year and limited increases in 2017.

Why is this important?

Higher U.S. interest rates are negative for gold because they increase the opportunity cost of holding non-yielding bullion and tend to push up the value of the U.S. dollar, in which gold is priced.

Will the rally continue?

Gold has pulled back from its 2016 highs as investors try to figure out the next move.

For the moment, it looks like the market is going to bounce around in a narrow range until the next big shock, which could be the U.S. election.

Longer term, the global move to negative rates might be positive for gold. Japan and several European countries have already gone down this path, and some pundits expect the trend to spread.

If that happens, demand for gold might surge as investors look for safe-haven investments.

Should you buy Barrick?

Investors have to be gold bulls to own any gold stocks right now. If you are in that camp, Barrick's low AISC and huge production make it an attractive pick to play the rally.

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