Is it Time to Reconsider Barrick Gold Corp.?

Description

I think it's fairly safe to say that gold stocks have had their best year in over a decade.

After a run-up to US$1,900 per ounce, gold prices went over a cliff in 2011 and started an epic multi-year drop before finally settling at sub-US$1,100 per ounce late last year. That drop pushed gold producers to look at extreme cost-cutting and efficiency improvements more seriously, as profits and margins evaporated by the month.

When gold prices finally started rebounding this year, the leaner and more efficient gold producers saw their stocks take off nearly as quick as gold prices themselves.

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is one of those gold producers, and to say that Barrick has had a great year would be an understatement. Despite a drop in share price of over 15% in the past three months, the stock is still up 120% year-to-date.

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The obvious question that everyone is asking is, are the good times set to continue, or is it time to sell?

What's going on with gold prices?

After rising to over US$1,350 an ounce this past summer, gold prices have retreated to just over US$1,250 an ounce. There are a number of reasons why the rally on gold has slowed, or, as some speculate, stopped for the moment. Each of these has put the brakes on prolonged growth of Barrick and other gold producers.

The U.S. Fed now seems more than likely to keep interest rates as they are for the remainder of 2016, which is in stark contrast to the position held going into the year, when a series of rate increases was contemplated. Higher rates drive up the dollar, which in turn brings gold back down. With the Fed leaving rates as they are, gold turned out to be the real benefactor.

Gold has been a store of wealth for a long time. When there's market unrest or uncertainty, investors turn back to gold. And there was no greater uncertainty this year than the fallout that came in from the unexpected Brexit vote result.

Factoring in both of these events as well as the overall sentiment on the economy, gold prices shot up over 20% this year before starting to retreat slightly over the past two months.

Some of that retreat is nothing more than investors jumping out and taking profits.

What about Barrick?

Before gold prices started to recover, Barrick embarked on cost-cutting and debt-slashing initiatives. Starting out with over US$10 billion in debt, Barrick's plan called for slashing US$3 billion of debt by the end of 2015, and a further US$2 billion in debt has been slated to be cut by the end of this year.

Barrick easily met the 2015 target and is well on track to meet the 2016 target as well.

Barrick has managed to reduced all-in sustaining costs down to US$760 per ounce; considering that this figure was significantly higher only two years ago, this is an impressive feat. Once you factor in Barrick's production target for 2016 of 5.5 million ounces of gold, the company starts to look fairly attractive, despite already being up over 120% for the year.

In my opinion, Barrick remains a great investment for investors looking to diversify with a gold producer. While the current slide in price may not have yet plateaued, Barrick remains a strong option over the long term.

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Date
2025/07/30
Date Created
2016/10/21
Author
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