



Why Barrick Gold Corp. Is a Golden Opportunity for the New Year

Description

The gold industry has had an eventful 2016. Some stocks surged over 200% in what was the first gold rally in half a decade, only to be followed by an end to the rise and steady retreat in the second half of the year.

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is one of just a few gold producers that is set to finish 2016 up over 100%. As impressive as that sounds, there is still significant upside to Barrick in 2017.

Here's a look at some of the factors that could push Barrick higher.

Turnaround success

In 2015, Barrick was an inefficient, bloated gold producer that had over US\$13 billion in debt — more than the market cap of the company at that point. To make matters worse, gold was steadily declining in price from nearly US\$1,900 per ounce back in 2011 to sub-US\$1,100 levels.

Barrick embarked on an ambitious turnaround plan that saw the company put an emphasis on debt reduction and improved efficiency. By the end of 2015, Barrick had managed to reduce debt by US\$3 billion. Barrick has a further US\$2 billion targeted for this year, and management has stated that the company could be completely debt free within a decade.

On the operational side, efficiencies and cost-cutting measures put in place as part of the turnaround have seen Barrick reduce all-in sustaining costs to an industry low US\$740 per ounce.

Impact of gold prices

I believe 2016 was one of the oddest years in recent memory for the gold industry. After multi-year lows stemming from a prolonged drop in gold prices that started in 2011, this past year saw gold prices stage a rally in the first half of the year, appreciating by approximately 20% before settling because of several external factors.

While gold prices are now less than US\$100 off from where they were at the start of the year, there is

reason to believe that 2017 could usher in a new rally that could, according to some industry experts, see gold prices top US\$1,400 per ounce.

Chief among those reasons is a resurgence in demand for gold in both the Chinese and Indian markets, which collectively comprise 60% of global demand. Any uptick in demand for gold from those markets will put pressure on gold prices to increase.

The developing situation in Italy as well as upcoming uncertainties relating to elections in France and Germany could also fuel gold prices to move up further in 2017.

Improved results

Thanks to higher gold prices and lower, more efficient costs, Barrick managed to post improved results when compared to the past few years.

Specifically, Barrick's US\$1.5 billion in free cash flow over the past 12-month period is a notable accomplishment in this regard. The company could start increasing the paltry 0.48% dividend yield which is currently offered.

In my opinion, Barrick represents one of the best options for investors looking to diversify their portfolio with an investment in the precious metal industry over the long term.

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