Barrick Gold Corp.: Should You Buy This Stock Right Now?

Description

Gold is catching a tailwind, and investors who have been on the sidelines are wondering which stocks are the most attractive in the sector.

Let’s take a look at **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) to see if the world’s largest gold miner should be on your buy list.

Turnaround efforts

Barrick is making good progress on a turnaround plan launched nearly two years ago.

At the time, pundits had some doubts the company would be able to reduce its massive US$13 billion debt load enough to keep it out of trouble. Barrick certainly had a challenge on its hands amid falling prices and limited demand for gold assets.

To the surprise of many, the company managed to meet its goal of reducing debt by US$3 billion that year and is expected to report an additional reduction of at least US$2 billion for 2016.

Operational improvements are just as impressive. Barrick reduced its cost guidance three times in 2016, and it looks like the final number for 2016 all-in sustaining costs (AISC) will be close to US$750 per ounce of gold.

That makes Barrick a low-cost producer among the big miners.

Going forward, management believes AISC will be down to US$700 per ounce in 2019.

Asset sales have hit total production volumes, but Barrick says it will report output near the top of its guidance for 2016 and remains focused on developing high-return properties.

At the current gold price, Barrick is generating solid margins, and investors should continue to see the company deliver strong free cash flow.

Gold outlook

Gold rallied in the first half of 2016 on reduced expectations for U.S rate hikes and concerns about foreign shocks on financial markets.

The metal then trended lower through the back half of the year as investors shrugged off concerns about the Brexit and once again set their sights on the U.S. Federal Reserve.

The Trump election win initially extended the pullback, but activity in recent weeks suggests the momentum is shifting.

What's going on?

President Trump's aggressiveness towards China and his plan to renegotiate trade deals are causing some uneasiness in the market. The discomfort might fade, or investors could rush into safe-haven assets, just in case.

At the moment, it's simply too early to tell how things will pan out.

Other issues include the Brexit, Italy's banking crisis, and upcoming national elections in France and Germany. If the situation gets ugly on all those fronts, gold could enjoy a nice run through the year.

On the opposite side of the trade, investors have to keep a close eye on the Federal Reserve to see if it will raise rates as expected. Last year, pundits thought the Fed would move four times, but it only raised the target rate once in December.

The current consensus for 2017 is there will be three rate hikes. If the Fed follows through, gold might have a tough time moving much higher.

Why?

Rising rates tend to be negative for gold, as they increase the opportunity cost of holding the non-yielding metal. Higher rates can also put upward pressure on the value of the American dollar, in which gold is priced.

Should you buy Barrick?

Gold is always an uncertain bet, so you really have to be in the bull camp to justify holding any of the miners in your portfolio.

If you are part of that crowd and believe gold is headed higher over the medium to long term, Barrick looks attractive today, and the stock should probably be one of your top picks in the space.

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Date
2025/08/02
Date Created
2017/02/01
Author
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