Why Barrick Gold Corp. Remains a Great Investment

Description

Investing in the gold market is not without risk. Perhaps this is because the multi-year tumble in gold prices from 2011 is still fresh in many investors' minds, or maybe it's because the rally in the first half of last year was nearly erased by a drop in the second half of last year that left many on edge.

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is a gold producer that catches my attention with each passing quarter. The recently announced end-of-year results convinced me that this is *the* gold stock for any portfolio.

Let's start by looking at how Barrick's recently announced quarterly earnings report fared.

Fiscal 2016 results are in

Over the course of the 2016 fiscal year, Barrick continued to focus on reducing debt, cutting costs, becoming more efficient, and prioritizing better-performing mines over others.

Barrick arguably exceeded all of these goals. The company impressively shed over US$2 billion in debt over the course of the year and has set a target of an additional US$1.5 billion in debt to be paid off in fiscal 2017. In addition to reducing debt, Barrick also substantially improved liquidity; the company now has less than $200 million of debt due before 2019.

From a cash flow perspective, Barrick finished the year with US$2.6 billion of operating cash flow — a 21% increase over the fiscal 2015 figure, and US$1.5 billion in free cash flow for the year, which is up an impressive 221% over the 2015 figure. Much of that improvement can be attributed to lower expenditures and reduced interest payments.

Those interest payment savings have snowballed significantly. In fiscal 2016, Barrick saved approximately US$100 million in interest thanks to the aggressive debt-reduction plan established. Over the course of the past two years, those savings add up to an impressive US$235 million in savings.

In the two years since beginning the debt-reduction plan, Barrick has paid off over US$5 billion in debt and plans to have debt reduced to just US$5 billion by the end of 2018.

What lies ahead for 2017?

One thing that continues to impress me about Barrick is how efficient the company has become. The combined effect of significantly reduced debt, more efficient operations, greater productivity rates, and higher gold prices are set to propel Barrick further.

Assuming Barrick meets the US$1.5 billion debt-reduction target set for this year, additional savings could be realized that will result in an even more improved cash flow.

Then finally, there’s the price of gold.

Some industry experts have stated that gold could hit US$1,300 per ounce this year, or higher. If that’s the case, Barrick will appreciate even more.

That price is not too far off the realm of possibility. There are a host of external factors that could push gold prices higher, ranging from the U.K. finally commencing Brexit talks to the increasingly protectionist tone coming from Washington. A recent surge in demand for gold in both China and India could also drive prices up.

And that’s not even taking into consideration the upcoming elections in France and Italy, which could create other problems for the European Union.

In short, any of these likely events could cause investors to seek out the perceived safety that the gold market has provided historically over other investments.

Barrick’s position in the gold market is unique. The company has become highly efficient, yet it still manages to increase production. Barrick’s balance sheet is improving, while gold prices are inching upwards on renewed demand.

In my opinion, Barrick remains a great investment opportunity, particularly for those looking to diversify with a precious metals stock that has growth potential.

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