



Barrick Gold Corp. Plunges: What Should Investors Do?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) tanked after the the company released its Q1 2017 earnings and new guidance for the rest of the year.

Let's take a look at the situation to see if the stock should be in your portfolio.

Earnings and outlook

Barrick Gold Corp. reported solid Q1 2017 results with adjusted net earning coming in at US\$162 million, or US\$0.14 per share. That compares to US\$0.11 per share at the same time last year.

Operating cash flow rose to US\$495 million from US\$451 million a year ago, supported by higher gold and copper prices and lower interest charges.

Barrick has reduced its debt from US\$13 billion to US\$7.9 billion in the past two years, and expects to end 2018 with notes totaling US\$5 billion.

The company produced 1.31 million ounces of gold in Q1 at all-in sustaining costs (AISC) of \$772 per ounce.

Free cash flow for Q1 came in at US\$161 million.

So why did the stock tank?

Barrick's shares fell 10% in the wake of the earnings release. Part of the drop is due to the fact that analysts expected net earnings of closer to US\$0.20 per share.

The other reason is linked to Barrick's announcement that it will see lower production from its Veladero mine in Argentina due to a shutdown connected to a cyanide spill.

Barrick now expects the mine to deliver 2017 production of 630,000-730,000 ounces at AISC of US\$890-US\$990 per ounce. Previous guidance had production from the mine targeted at 770,000-830,000 ounces with AISC of US\$840-940 per ounce.

Gold prices

At the same time, gold is giving back some of the recent gains in the wake of the first round of the French election, where the market's worst-case scenario didn't occur.

Far right candidate Marine Le Pen made it to the final round, but she is expected to lose to the other contender, Emmanuel Macron, who is viewed as being positive for the markets.

Should you buy Barrick?

Gold prices are pulling back and Barrick just hit a speed bump in its operations, so investors have to reset their expectations for the company's earnings through the rest of the year.

In the end, the decision rests on where you think gold is headed over the medium term.

Gold bulls should probably consider owning Barrick. The company is making good progress on the turnaround plan, and the Veladero setback should be short-term in nature.

Barrick remains the largest producer with very low AISC, and is generating healthy free cash flow at current prices, so it makes sense to have the stock in your portfolio if you believe gold is at the beginning of a longer-term upward trend.

If you don't think gold is headed much higher, it would be best to look for other investment opportunities.

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