



Barrick Gold Corp.: Is a New Rally Underway?

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is catching a small tailwind after the strong pullback off the April highs.

Let's take a look at the current situation to see if Barrick deserves to be in your portfolio.

Turnaround plan

Barrick has made good progress on the turnaround plan it launched in 2015.

The company began that year with US\$13 billion in debt and faced a falling gold price. It had little appetite for asset purchases.

Despite the difficult climate, Barrick managed to sell assets, negotiate partnerships, and enter streaming deals to provide enough cash to lower the debt by US\$3 billion.

Last year, as gold prices recovered, Barrick shaved another US\$2 billion off the debt load.

In addition, the company has reduced all-in sustaining costs (AISC) to the point where Barrick is a low-cost producer among the major miners.

Free cash flow has been positive for several quarters, and Barrick even raised its dividend earlier this year.

Why the pullback?

Barrick's Q1 2017 numbers came in weaker than expected, and the company has run into some problems at its Veladero mine that resulted in reduction of production guidance for the year.

Gold outlook

Gold has been on an upward trend since late December, but the price has been volatile, bouncing between \$1,200 and \$1,300 for most of 2017.

In recent weeks the move has been to the downside, as safe-haven demand has relaxed and concerns about rising interest rates have come back into focus.

The French elections have gone the way the markets hoped, and the surprise result in the U.K. election hasn't triggered the panic that some had expected.

On the interest rate front, gold had rallied through May on the back of weak jobs numbers in the United States and rumours the Fed might not raise rates as quickly as forecast.

The sentiment changed when the Fed went ahead with the June rate hike, which was the second increase this year.

Markets are now expecting the Fed to move at least one more time in 2017.

Where do we go from here?

The recovery in the past week might be the result of short covering, as geopolitical concerns over Brexit and Trump's possible Russia connections are driving some safe-haven demand.

Whether or not a sustainable move to the upside is in the cards is anyone's guess.

Barring any major geopolitical or economic shock, I suspect gold will continue to trade in a relatively narrow range in the near term.

Should you buy Barrick?

You have to be a gold bull to own any gold miners today. If you are in that camp, Barrick deserves to be on your buy list.

The debt situation is under control, costs are falling, and the company is generating solid free cash flow.

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