



Is it Time to Start Loading Up on Gold Stocks?

Description

Gold has been viewed as a secure store of wealth for as long as we've been able to extract the metal from the earth. And while we may deviate from that store of wealth when the economy takes off, during times of uncertainty, investors have time and again returned to the perceived safety of gold.

The past year has provided more than adequate uncertainty to the markets, fueling a resurgence in gold. Events such as the Brexit fallout last year as well as the unexpected U.S. election results to the ongoing uncertainty over the economy and interest rates provide ample reasons for jittery investors to turn back to gold as a more stable store of wealth.

Most recently, the aftermath of President Trump's speech at the U.N. General Assembly this week, whereby he made references to "destroy North Korea," is still unclear but likely to bring in more defiance from the reclusive state, fueling additional uncertainty to markets.

For gold producers, that uncertainty leads to a significant upside in precious metals prices, which can provide a healthy boost to margins. One gold producer that has become an appealing investment option during the recent bout of uncertainty is **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX).

Good things come to those who wait

Barrick is in a very impressive and enviable position today over its peers largely because of the multi-year slump that nearly pushed the company over the edge.

Back in 2011, gold was trading at near US\$1,900 per ounce, and Barrick, along with other producers, were reporting huge profits and healthy margins. Those inflated gold prices permitted gold producers to operate freely, with a constant view towards expanding operations, and little consideration was given to reining in costs.

In the second half of that year, gold prices went into what became a deep multi-year drop, with prices eventually bottoming out at sub-US\$1,100 levels. This left Barrick with a staggering amount of debt that was near US\$13 billion, which exceeded the market cap of the entire company.

So, what did Barrick do?

Barrick engaged in a multi-year turnaround that saw the company emerge as a leaner organization with a focus on cost cutting and streamlined operations. In the time since implementing that turnaround, the US\$13 billion in debt the company had has been slashed several times over, and the company is now on target to further reduce that amount to just US\$5 billion by the end of next year. Barrick could be completely debt free within a decade.

On the efficiency front, Barrick is now a leader among gold producers in terms of all-in sustaining costs, with guidance in the range of US\$720-770 per ounce slated for 2017.

To illustrate how much the company has improved, many of Barrick's competitors have all-in sustaining costs that are considerably higher; in the years following the price crash, it wasn't uncommon for that figure to be over US\$900 per ounce.

Why today's Barrick is tomorrow's great investment

As impressive as Barrick's recovery has been over the past two years, there are other intriguing reasons to consider an investment in the company.

First, in a market of rising interest rates, Barrick's increasingly smaller debt is not only good for the company, but it will improve investors' perceptions of the company in comparison to Barrick's peers that hold substantially more debt.

Second, Barrick's stock has plunged over 5% year to date and over 11% over the course of the past year. While some of this can be attributed to the slump in gold prices which started late last year, some of it also stems from weaker production figures.

Veladero is the largest gold mine in Argentina and one of the biggest contributors to Barrick's bottom line. The mine had several operational mishaps over the past year, leading to a temporary closure of the mine, which impacted overall production. The mine re-opened in July, and Barrick maintains the current production guidance for the year.

In my opinion, Barrick remains a great long-term investment for those investors looking to diversify with a precious metals stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Msn

2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/09/12

Date Created

2017/09/21

Author

dafxentiou

default watermark

default watermark