



Barrick Gold Corp. Stock Plunges 7%: Here's What You Should Do

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is losing its lustre. The stock crashed more than 7% on October 26 as soon as the market got a whiff of the gold miner's third-quarter numbers, which were released the prior evening. As you may have already guessed, Barrick's quarterly numbers were disappointing.

But were Barrick's numbers really that bad, and should investors in gold be cautious? Or did the market overreact, presenting investors with a golden opportunity?

A quick recap of Barrick's third quarter

Barrick's gold production declined nearly 10% year over year in Q3, which [wasn't really surprising](#) given the ongoing tax dispute between Acacia Mining and the Tanzania government, which has brought production in the company to halt. Barrick holds 63.9% stake in Acacia.

The biggest blow, however, was Barrick's bottom line: it reported a loss of US\$11 million compared to a profit of US\$175 million in the year-ago quarter as production declined and expenses rose.

To make matters worse, Barrick narrowed its full-year production guidance marginally at the higher end to 5.3-5.5 million ounces of gold and upped its all-in-sustaining cost (AISC) estimate by US\$20 at the lower end to US\$740-770 per ounce of gold. AISC is a comprehensive measure of cost used by gold companies.

That's as bad as it can get, but there were also some positive takeaways from Barrick's quarter.

Beneath the surface

While higher AISC is bad news, Barrick should remain one of the lowest-cost gold producers, even at its higher estimated full-year AISC. Rival **Goldcorp Inc.** (TSX:G)(NYSE:GG), for example, is aiming for AISC of US\$825 per ounce this year. Cost efficiency is a huge competitive advantage to have in a commodity business like gold.

On the production front, Barrick hinted that it invested “more capital” on projects, including three big ones in Nevada, U.S., that have the potential to add more than one million ounces in annual gold production beginning in 2020. Barrick’s Q3 capital expenditure was nearly 10% higher year over year at US\$30 million.

Another key area where Barrick continues to deliver is deleveraging. The gold miner has already pared down debt worth US\$1.5 billion so far this year [and remains on track to reduce it](#) by US\$5 billion by the end of next year.

Should you buy Barrick now?

The dispute in Tanzania is the biggest headwind for Barrick right now. While the gold miner recently announced a “proposed partnership framework” with the government of Tanzania, it is subject to Acacia’s approval. Bear in mind that the dispute could take months to settle, and Barrick may have to bear substantial costs on it while suffering a production loss from Tanzania.

However, when you consider Barrick’s aggressive moves to expand production, bring down costs, boost cash flows, and strengthen its balance sheet, its long-term story still looks strong.

Barrick is now trading at a price-to-earnings and price-to-cash flow (P/CF) of only seven times each. Comparatively, Goldcorp is asking for 12 times P/CF. At this price, I’d hold on to my Barrick shares and perhaps even add more on dips with a long-term view.

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