Consider This Gold Miner As a Long-Term Option

Description

The market volatility that we've seen over the course of the past month served as a perfect reminder to investors everywhere about how important it is to diversify your portfolio.

With interest rates also continuing the creep up ever so slowly, precious metal stocks such as **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) are emerging as potential investment options.

Precious metals such as gold have long been viewed as viable stores of wealth owing to their high demand, scarcity, and with few exceptions, a steadily increasing price. In times of prolonged market uncertainty, some investors counter market volatility in the market by turning to the perceived safety in precious metals.

Why Barrick?

Apart from being the largest gold miner in the world, Barrick does hold significant potential for investors on several fronts.

First, Barrick is well diversified. Mines can be located anywhere on the planet, and as such, miners are susceptible to external factors such as war, politics and the environment that could delay or even shut down a mine entirely.

A perfect example of this is cobalt. The Democratic Republic of Congo is known to possess massive amounts of the metal, which is a staple used in many of our modern electronics. High demand for the metal has led to many traditional miners setting up mines in the Congo.

Unfortunately, the Congo has had more than its fair share of issues in the past, leading to increased costs and lower production stemming from the region.

Thanks to the recently announced acquisition of Randgold Resources Ltd., Barrick will benefit from holding a much larger and more diversified portfolio of investments, which includes a mine in Congo, but Barrick is still well diversified in mines on several continents, and is widely regarded as one of the most efficient miners on the market, with all-in sustaining costs coming in at US$785 per ounce in the most recent quarter.

In terms of financials, Barrick reported a net loss of US$412 million in the most recent quarter and adjusted net earnings of US$89 million. That loss was primarily attributed to a US$05 million impairment charge at the Peru-based Lagunas Norte mine. Foreign currency translation losses, such as the weakened Argentine Peso, also contributed to the loss.

Total revenue for the quarter came in at US$706 million, with net cash from operating activities and free cash flow coming in at US$706 million and US$319 million, respectively.

One of the most impressive points worth mentioning has to do with Barrick's debt. In the years following the 2011 gold price crash, Barrick saw its debt swell to beyond US$13 billion, which at the time was significantly higher than the company's market cap.

Barrick began a focused debt-reduction program a few years ago that has since resulted in paying back an impressive US$10 billion in the past five years.

As of the most recent quarter, Barrick has just US$5.7 billion in debt outstanding, a net debt of just US$4 billion, and under US$100 million in debt that is due before 2020. In fact, over 85% of Barrick's debt is now due after 2032.

Should you buy?

Barrick has an improving balance sheet, a growing portfolio of diversified mines and remains one of the most efficient miners in the business. These factors make Barrick a compelling investment, but factoring in the potential gains in gold prices expected over the next few years justifies investors to seek out a small position in Barrick for nearly any portfolio while the stock still trades at a discount.

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Author
dafxentiou