Opportunity? The Changing Face of Barrick Gold Corp. (TSX:ABX)

Description

Nearly two months ago, **Barrick Gold** (TSX:ABX)(NYSE:ABX) announced it was acquiring Randgold Resources in a massive deal to become the largest gold company on the planet, with a diversified portfolio of mines that straddles the globe, which includes owning half of the top 10 producing mines on the planet.

In the period since then, Barrick provided a less-than-stellar quarterly update and floated divesting some of its assets, prompting the question of whether investing in the gold miner is still a feasible plan for investors. Let's take a look at the company and try to answer that question.

Quarterly results: How bad were they?

In the most recent quarterly update, Barrick announced a staggering net loss of US$412 million, or US$0.35 per share, far surpassing US$99 million in income that analysts were expecting. The main reason for the miss according to Barrick stemmed from the US$405 million impairment charge at a mine in Peru.

On an adjusted basis, the company earned US$89 million, or US$0.08 per share, with total revenue hitting US$1.84 billion in the quarter. Operating cash flow and free cash flow in the quarter hit US$706 million and US$319 million, respectively.

Turning to production and guidance, Barrick saw gold production in the quarter come in at 1.15 million ounces, with a cost-of-sales figure per ounce of US$850, and all-in sustaining costs came in at US$785 per ounce. Copper production hit 106 million pounds, with a cost of sales and all-in sustaining costs in the quarter coming in at US$2.18 per pound and US$2.71 per pound, respectively.

Full-year guidance numbers for both remain unchanged, with gold production set to fall within 4.5-5.0 million ounces and copper production to be 345-410 million pounds.

Where will Barrick go next?

As Barrick transitions to becoming the largest miner on the planet, there are several areas of concerns that potential investors should contemplate.

First, there's debt. Debt is an interesting, if not proud point of discussion for Barrick. In the years following the price collapse of gold in 2011, Barrick was straddled with over US$13 billion in debt. With an inefficient mining operation and deflated gold prices, the company turned its attention to debt reduction with a laser-like focus that has, to date, allowed Barrick to slash its debt in half, freeing up funds for acquisitions and growth, much like the Randgold deal.

Turning to operations, Barrick is inheriting an enviable portfolio of mines from Randgold, which includes a number of mines in the Democratic Republic of Congo that other miners have struggled with in recent years, as well as the Lumwana copper mine in Zimbabwe. Whereas the focus of Lumwana will be to rein in costs, the Congo mines are higher-quality deposits that could prove lucrative to Barrick's bottom line.

The company has also noted its desire to diversify more into mines in other regions of the world, such as the Guyana Shield in South America, as well as grow its exposure to mines at home in Canada.

Should you buy?

Barrick is not without risk, and gold prices are going to continue to be as volatile as ever with everything from Brexit to interest rate hikes and political instability taking their toll on the markets.

That being said, precious metals such as gold will continue to be viewed as stores of wealth, particularly in times of insecurity due to their scarcity, high demand, and limited supply.

In short, long-term investors looking for a precious metals investment to diversify their portfolios will be happy with a small position in Barrick for long-term growth but may see short-term volatility as more of the norm.

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