



My Number One Gold Stock for 2019

Description

Being a commodity producer is tough. Many savvy investors contend that over the long term, very few if any actually make an economic profit. Sure, there's money to be made, but time and time again, investors have been fleeced while management teams have lined their pockets.

The story is almost always the same for miners. Regulatory uncertainties and massive investment costs constantly throw wrenches into the best laid plans. Often, mines take years longer than anticipated to get approval and sometimes they're not approved at all. Meanwhile, cost overruns are near certainties. When the going gets good, mining companies are known to overspend at the top of the market. When the bear cycle bottoms, few players have the balance sheet strength needed to capitalize on underpriced opportunities.

But skilled investors have been able to make profits along the way. In 2015, for example, shares of **Barrick Gold Corp** ([TSX:ABX](#))(NYSE:ABX) bottomed out at \$9. There were legitimate concerns that Barrick wouldn't be able to survive given its massive debt load. But within six months, the stock had tripled, topping \$30 per share.

With the stock back down to \$13, there's reason to believe another run is ahead.

New company, new beginning

Back in 2015, Barrick was in a rough spot. With more than \$13 billion in debt and millions in losses, bankruptcy seemed just around the corner. Since then, management has pared leverage down to under \$5 billion, taking insolvency completely off the table. In fact, even the underlying business has been overhauled.

On January 2, 2019, Barrick merged with Randgold, giving it the highest concentration of tier 1 assets of any mining group in the world. In an industry where scale matters, Barrick pushed itself into a leading position. The company moved quickly to realize synergies. In December, even before the merger officially closed, it cut 95 employees from its Toronto office, nearly half of its staff there.

According to *The Globe and Mail*, the pace of layoffs appears to be faster than expected. This is great news given that *synergies* can be a dirty word in the mergers and acquisitions space considering much of the cost savings are never realized.

In December, CEO Mark Bristow also announced that Barrick would sell non-core assets to cut costs and focus on their most attractive opportunities. With falling costs, limited debt, and ample cash flow, most investors would expect Barrick to ramp up spending. Thankfully, the company's well-regarded management team continues to be capital disciplined — a nice surprise in an industry known for its poor timing.

In their most recent shareholder letter, CEO Mark Bristow and Executive Chairman John Thornton noted that they would only be “pursuing new opportunities that meet strict investment criteria.” Given their early actions, it seems likely that this will be the case.

But of course, investing in a mining company is always a bet on the underlying commodity. With global gold production near a 15-year high, the industry has more capacity than ever. So real systemic risks remain, but if you're looking for exposure to gold miners, Barrick is your best bet for the year ahead.

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