Does Your Portfolio Have a Gold Miner?

Description

Gold stocks are polarizing investments. Investors either love them or steer clear of them entirely, opting for any number of other viable investment options that are less volatile. **Barrick Gold** (TSX:ABX)(NYSE:GOLD) is one of the largest precious metals miners on the planet and the recent uptick in gold prices presents an intriguing opportunity for investors.

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As good as gold

Gold prices are currently pushing toward the US$1400 per ounce barrier that hasn't been breached since October 2012. When gold prices topped US$1900 per ounce back in 2011, an epic multi-year collapse followed, leaving miners and investors alike with huge losses and the price of gold hovering at sub-US$1200 levels.

At the time of writing, gold stands at US$1399 per ounce. Here's why that's significant.

Gold has always been used as a store of wealth, particularly in times of uncertainty. With everything from interest rates, political stability, the price of oil, the lack of pipelines, and even the climate now producing turbulence on the market, wary investors are turning back to gold stocks for safety.

Why Barrick?

Apart from the growing demand for (and by extension, the price of) gold, Barrick is also investing heavily into growth initiatives.

One of those initiatives is a proposed US$1 billion expansion of the Pueblo Viejo mine in the Dominican Republic. The tier one mine is important to Barrick, and the company recently noted that a feasibility study into expanding the mine will be completed next year.

Pueblo Viejo is what Barrick refers to as a "tier one" asset, meaning that there is over a decade of production and over 500,000 ounces of gold in the mine. Last year, the mine produced 581,000 ounces of gold with an all-in sustaining cost of US$623 per ounce. This year guidance on the mine is set even higher.

All-in sustaining costs are a key measure of efficiency for precious metal miners, and Barrick is often regarded as one of the leaders in the industry.

In terms of results, in the most recent quarter, Barrick earned US$111 million, or US$0.06 per share, representing a drop from the US$158 million, or $US0.014 per share reported on the same quarter last year.

Revenue was up approximately 17% over the same period last year, coming in at $2,093 million.

Turning to production, Barrick produced 1.37 million ounces of gold in the quarter, representing a 30% gain over the same period last year, while all-in sustaining costs for the quarter came in at US$825 per ounce.

Final thoughts

Apart from the growing demand for gold in the current market, Barrick is an attractive investment for one other lesser-known reason – debt. Several years ago, while gold prices remained at multi-year lows and miners were much less efficient than today, Barrick had a crushing amount of debt that hit US$13 billion.

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What followed was a focused effort on paying down that debt, which Barrick managed to cut in half over just a few years. In the most recent quarter, Barrick announced that debt net of cash had dropped 12% to just US$3.65 billion.

To put it another way, with debt continuing to drop and gold prices continuing to rise, there is an opportunity for handsome gains emerging.

Overall, Barrick presents an intriguing investment option for those investors looking to diversify their portfolio, and in my opinion, a small position is warranted.

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