When It Rains It Pours

Description

Is there a more hated stock in the Canadian market than **Barrick Gold (TSX:ABX,NYSE:ABX)**? The company was the biggest drag on today's (comatose) TSX, as the stock declined by 2.5%. Over the past year, Barrick is down more than 33% and is bumping up against its 52 week low.

The company's exposure to **African Barrick Gold (LSE:ABG)** caused today's decline. African Barrick's stock was in a free-fall on Wednesday, down more than 11%, after reporting disappointing results. What has come to be the norm for most gold companies when they report – limited revenue growth, higher costs, and write-downs – were all part of the mix for African Barrick.

Barrick Gold owns 74% of African Barrick. In 2000, Barrick cobbled together 4 Tanzanian mines that it had acquired in separate transactions to create African Barrick. In 2010, Barrick raised about $1 billion by selling a quarter of ABG to the public. Barrick announced in August 2012 that it had put its remaining stake in ABG up for sale – supposedly expecting to receive about $3 billion. On January 8th however, the company announced that talks with state-owned China National Gold Corp. had broken off.

Tomorrow is another day

Tomorrow (Thursday, February 14th), it's Barrick's turn to report results and perhaps more importantly, announce 2013 guidance. Thus far the company has indicated that cash costs in 2013 will be similar to 2012 and operating costs higher. After significantly inflating expected capital costs at its Pascua-Lama mine during the second half of 2012 to the $8.0-8.5 billion range, the market will hope that there are no more surprises on that front. Costs are an industry wide theme and will dictate how tomorrow's release is received.

Value?

Regardless of further cost issues, this stock is getting cheap. With a book value/share at the end of Q3'12 of $25.16 and tangible book value/share of $15.08, the company trades at multiples of 1.3 and 2.1 respectively. This compares to 10 year averages of 2.5 and 3.5 respectively.

If Barrick's current P/B multiple was in line with its historic average, it would be a $63 stock, more than double current levels. To put it another way, Barrick's book value would have to fall by half (more than $12 billion worth of value destruction) for the stock to trade at its 10 year average multiple. This is a simplistic take on Barrick's value, but clearly, there is a lot of hate priced into this name.

The Foolish Bottom Line

The performance of this stock over the past year, heck, over the past 5 years, has caused many an investor to schluff off the idea of investing in Barrick (and many of its senior gold peers for that matter). Barrick's valuation implies that today's environment of consistently rising costs and value destruction is here to stay. Should this pattern change, Barrick's stock will run.

Can Barrick go lower? Anything's possible. Will a move lower be justified? We'll see. This name is interesting now and becomes even more so the closer it trades to book value.

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Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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