



Despite Its Pascua-Lama Headache, Barrick Gold Looks Cheap

Description

The sudden price correction in gold has applied extreme pressure to the gold mining sector, which has seen profitability tumble to new lows. The share prices of gold mining stocks have followed.

Miners that were once enjoying healthy margins despite high production costs are now being forced to cut costs by slashing exploration and mine development programs. While this is a short-term solution, it leaves profitability under further pressure, with long lead-in times required to develop mine assets, preventing them from increasing production.

But one miner that looks compelling to me — despite its many problems — is **Barrick Gold** (TSX:ABX, NYSE:ABX).

Barrick is the world's largest gold miner and boasts a diversified global portfolio of mining and exploration assets, giving it a large and diverse production base and access to considerable cost savings through economies of scale. Despite these advantages, Barrick's stock has plunged 50% for the year.

The Pascua-Lama problem continues to grow

Much of this can be blamed on the mine development difficulties Barrick has encountered, particularly at its biggest project, the Pascua-Lama mine on the Chilean Argentine Border.

Barrick has already invested more than \$5 billion in the development of this mine, but it has been dogged by protests from local indigenous groups concerned by the impact the mine will have on their communities and the environment, in particular the local water supply.

To date, Barrick has been fined \$12 million for environmental breaches at the mine. Furthermore, Chile's Copiapo court of appeal [recently ruled](#) to freeze construction until Barrick builds the appropriate infrastructure to prevent water pollution. But more importantly, the court did not terminate the project. Barrick committed to meeting those requirements in order to continue the project.

The Diaguitas indigenous group has now appealed to the Chilean Supreme Court seeking the

revocation of the environmental permit in order to effectively terminate the project. The application was made on the basis that the current environmental permit is not legitimate and the mine has already caused significant environmental damage. They also assert that once in operation it will cause further extreme environmental damage. The Supreme Court ruling is expected to be delivered in late 2013.

It's difficult to predict the outcome of the appeal given the complex nature of Chile's legal system, but the consensus view is that the Supreme Court will confirm the Copiapo court's ruling.

All of these factors have delayed the mines commencement of operations from 2014 until at least 2016, if at all.

Interestingly, Argentina's government has confirmed that it will allow the part of the project on its side of the border to continue — a move more than likely motivated by Argentina's desperate need for hard currency and foreign investment. Yet this is of little consolation for Barrick as the vast majority of the gold reserves are located in Chile.

The bright side

Despite the bleak outlook for the project to date, it offers considerable upside for Barrick. Pascua-Lama is believed to be one of the richest, untapped gold deposits in the world. The mine is also touted to have the potential to be one of the highest-producing, lowest-cost mines in the world — expected to produce 800,000 ounces annually in the first five years. This would significantly boost Barrick's annual production, which for 2013 is on track to be around 7 million ounces, thereby boosting cash flow and profitability if the mine ever gets off the ground.

Barrick looks cheap

It's expected that Barrick will write-down around \$5.5 billion on the value of this asset in its second-quarter 2013 results. When the company's forward price-to-earnings ratio of 6.4 is considered, along with Barrick's current trading price and estimated 2013 earnings per share, I believe this write-down has already been priced in by the market.

This makes Barrick appear particularly cheap, especially in comparison to its Canadian peers. Barrick is trading with an enterprise value of 4 times EBITDA, far lower than **Goldcorp's** 9 times, **Yamana's** 7 times, and **Eldorado's** 8 times. Furthermore, Barrick's all-in sustaining cash cost per ounce of \$919 is lower than Goldcorp's \$1,135 and Eldorado's \$1,010.

If Barrick is able to bring Pascua-Lama on line it will have a huge advantage over its peers by virtue of such a large addition to its reserves and production. Its peers have been slashing exploration and mine development programs to conserve capital and reduce costs.

Foolish bottom line

It's clear that the Pascua-Lama project has been a costly burden. It is also becoming increasingly questionable as to whether the company will be able to successfully complete the project, especially now that it appears Barrick could become locked in a lengthy legal battle in a country not known for the transparency of its legal system.

But even without Pascua-Lama, Barrick looks cheap, with its combination of growing production and

economies of scale. Any positive turn of events regarding Pascua-Lama can only be considered a bonus.

While the gold sector may be poised for a bounce, one resource that is potentially on the verge of a major move higher is uranium – the key ingredient for nuclear power. [Click here now](#) to download our special **FREE** report “**Fuel Your Portfolio With This Energetic Commodity**”. We think you’ll be surprised at how bright the future is for uranium, how far these 2 stocks have fallen, and how quickly they could rebound. [Click here now](#) for the nuclear ride of your life!

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