Giving Barrick's Australian Divestiture Some Context

Description

Barrick Gold (TSX:ABX,NYSE:ABX) announced this morning that it has sold its Australian assets, pending approval by Australia's Foreign Investment Review Board. The buyer is South African based miner **Gold Fields** (NYSE:GFI).

The Australian assets consist of 3 mines that produced 452,000 ozs of gold in 2012 and 196,000 in the first half of 2013. This gold was produced at an all-in sustaining cost of $1,137/oz in 2012, and $1,145/oz thus far in 2013.

Proven and probable reserves at these mines total 2.6 million ounces according to the company's release.

For this, Gold Fields is paying about $300 million – half of which can be paid in shares of the company.

Implied return

Gold's demise, and that of the miners in particular, has been very well-documented. Given the troubles that exist, one might think this would be a great time for those who are able to scoop up assets on the cheap.

Some quick, back of the envelope, highly simplified calculations however indicate that Barrick wasn't completely taken advantage of with this deal.

Let's assume the all-in costs remain as they are and the resource does not grow. With production of about 400,000ozs per year, it will therefore be depleted in about 6 years. Let's also assume that over this 6 year period the price of gold averages $1,300/oz. This means that each ounce of gold that Gold Fields pulls from the mine over the next 6 years will net them about $160.

2.6 million ounces at $160/oz, carry the 1, add 3, gets you to a rough total profit of $416 million over the remaining life of these mines. Compared to the $300 million being paid, this represents an annual return of 6-7% for Gold Fields. A nice payout, but not as juicy as one might think is available.

Foolish takeaway

This is a good sign for Barrick. It indicates that they're sticking to their recently stated strategy of running a tighter ship, and they aren't being completely fleeced in the process. Yes, they've potentially left something on the table here should the resource grow, or if the price of gold returns to its upward glide-path, but these are both wild cards that may or may not occur. In the context of the current market, this looks like a very reasonable deal.

Another golden opportunity

Though gold may be poised for a rebound, there is another resource that potentially offers a more significant opportunity. Instead of gold, your portfolio could be best served by uranium – the key ingredient for nuclear power. Not only is uranium in demand in places like China, but its price isn't quite as headline driven, which could make it a more valuable commodity to secure your portfolio.

If you're curious to learn more about uranium's power, The Motley Fool has prepared a Special **FREE** Report that will clue you into the two best uranium companies in Canada. It's called "Fuel Your Portfolio With This Energetic Commodity," and you can receive a copy at no charge by simply **clicking here now!**

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Fool contributor Iain Butler owns shares of Barrick Gold. The Motley Fool doesn't own shares of any of the companies mentioned at this time.

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Date
2025/08/10
Date Created
2013/08/22
Author
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