2 Reasons to Like Barrick Gold

Description

Barrick Gold (TSX: ABX, NYSE: ABX) is the worst house in a bad neighbourhood. The mining giant has been plagued by corporate governance issues and rising production costs. Additionally, miners as a group have been out of favour due to sagging metal prices. But for contrarian investors, Barrick may be an attractive investment opportunity for two reasons.

Barrick is dirt cheap
I won't mince words — it's ugly at Barrick. Last quarter the company wrote off $8.7 billion in global assets, cut its dividend 75%, and laid off 30% of its corporate staff. On top of this, the company has faced relentless criticism regarding its corporate governance, lack of independent board members, and extravagant pay practices. The value destruction witnessed by the company's Equinox acquisition and bungled Pascua Lama mines means Barrick has lost a lot of credibility with investors.

As a result, Barrick trades at a discount to peers on many metrics.

Company	**Forward P/E**	**EV/EBITDA**	**Price/Book**
Barrick Gold	8.4	5.9	1.4
Anglogold Ashanti	8.6	4.7	1.5
Newmont Mining	16.6	7.6	1.3
Randgold Resources	16.9	9.7	2.6
Yamana Gold	19.0	7.8	1.1
Goldcorp	22.0	9.2	1.1

Source: Ycharts.com

Not only this, but Barrick is also trading at the cheapest level — based on price-to-earnings and enterprise value-to- EBITDA multiples — in more than a decade. But there's an upside to this. Investors can purchase millions of ounces of high-quality gold reserves for the lowest price in recent memory.

Lots of catalysts

Of course a cheap valuation is no good if the underlying company is troubled. Like buying a $9 pair of jeans at **Wal-Mart**, sometimes you get what you pay for. However, there are signs that the company is cleaning up its act.

Barrick's new chief executive Jamie Sokalsky has heard shareholder complaints loud and clear. He promises to cut costs, optimize its asset portfolio, and grow free cash flow. Last quarter, the company announced plans to either sell or curb production at 12 of its 27 mines. Operations with costs above $1,000 per ounce will undergo mine plan adjustments or be sold.

Disgruntled shareholders are pushing for even more changes. In September, a U.S. hedge fund called Two Fish Management released a 78- page presentation proposing that Barrick spin off non-core assets, appoint new independent board members, and revise executive compensation.

Mike Morris, the fund's director, believes the company trades at a discount to its intrinsic value because of Barrick's conglomerate-like structure. He argues that if the company were to focus solely on its North American and South American operations, the stock could trade as high as $40 to $50 per share — versus roughly $19 per share where the stock closed on Wednesday.

Segment	**Comparable**	**Cash Flow (m)**	**Multiple**	**Valuation (m)**
North America	Goldcorp	$3,771	9.0	33,943
South America	Yamana Gold	1,628	8.1	13,133
Australia Pacific	Newcrest	1,432	5.2	7,488
Global Copper	N/A	477	5.0	2,383
African Barrick	Market Price	205		638
Total		**7,513**		**57,585**
Less Net Debt				12,977
Equity				44,608
Value/Share				**$44.56**

Source: Two Fish Asset Management

Mr. Morris' figures may be optimistic. But continued pressure on management to run Barrick in a more shareholder-friendly manner is welcomed. Certainly, it could serve as a catalyst to close the stock's discount to peers.

Foolish bottom line

Fortunately for shareholders, activists are already having some success. Last month, Barrick confirmed plans to add new independent directors to its board and promised to review its executive pay practices. Investors can expect an update on these plans by year-end. If Barrick is able win over the hearts and minds of shareholders, then there could be considerable upside for the stock.

The Motley Fool's top two stock ideas

The Motley Fool Canada's senior investment analyst just unveiled his top two stock ideas for new money now. And YOU can be one of the first to read his buy reports — just click here for all the details.

Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date
2025/07/06
Date Created
2013/10/03
Author
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