



## Barrick Disappoints Shareholders...Again

### Description

"I'm not mad. I'm just disappointed." As a child, you know when you hear that phrase from parents, you've messed up bad. Your actions have crossed so far over the line of normal misbehaviour for a child that they can't even muster the strength to yell.

After watching what played out at **Barrick Gold** (TSX: ABX, NYSE: ABX) yesterday, that sort of disbelief sums up my reaction to the quarter. I'm not surprised. Halting construction at the company's key Pascua-Lama mine and diluting shareholders to repair the balance sheet was inevitable. But I'm disappointed because it didn't have to happen at all.

### How Barrick is restructuring itself

In the face of sagging metal prices and saddled by a heavy debt load, Barrick is undertaking a massive reorganization.

First, the company announced that it was suspending construction at its South American Pascua-Lama gold mine. Shelving the project will save the company over \$1 billion in capital expenditures next year and buys the company time. This maneuver comes on top of a series of divestitures in the past quarter where management sold several high-cost Australian mines within its portfolio.

Next, to repair its stretched balance sheet, Barrick announced plans to raise over \$3.4 billion in one of the largest secondary issues in Canadian history. The company agreed to sell over 163.5 million shares for \$18.35 apiece – a 5.4% discount from where shares closed on Thursday – with an option to sell additional shares if demand for the issue is strong.

Finally, Chief Executive Sokalsky announced plans to shave an additional \$500 million in annual spending. Much of these savings will be realized through a massive restructuring which involves laying off over 1,800 employees. This comes on top of over \$2 billion in promised cost cuts announced last quarter.

### Not really surprising...but disappointing

Of course, none of these announcements should have surprised anyone closely following the company. Rather, it's the inevitable consequence of a decade of overpriced acquisitions and runaway

spending.

Only hours before the equity issue bombshell, Chief Financial Officer Ammar Al-Joundi tried to reassure shareholders during the conference call of the Barrick's 'excellent financial flexibility'. The whole time I was wondering how could a company with only \$2 billion in cash finance a combined debt load and capex budget of \$23 billion. But I didn't expect a resolution to that question only a few hours after the quarter.

What's frustrating is that so many of Barrick's troubles are self-inflicted. When Barrick's board approved construction of Pascua-Lama in 2009, it was expected to cost \$3 billion to construct. Today, that estimate has ballooned to \$8.5 billion. And while some of that increase is due to industry-wide inflation, much of it is credited to the company's decision to complete construction in-house and its strained relationship with Chilean regulators.

After spending over \$5.8 billion on the mine to date, Pascua-Lama is only 50% complete and Barrick has written off \$5.1 billion from the project. Now shareholders are being asked to pick up the tab for this fiasco. Including the equity issued yesterday, since 2007 Barrick has sold over \$7 billion in stock. Yet the company only has a market capitalization of \$20 billion. Before prospective investors bid on this new issue, they have to ask where all of this money is going?

### **Foolish bottom line**

Unfortunately for Barrick's management, I think the company's shareholders will be less disappointed and more angry in their reaction to yesterday's news. As of Friday morning, Barrick shares have lost over 10% of their value since the close on Wednesday. Activists are already disgruntled with the board's decision to pay co-chairman John Thornton a \$17 million pay package nor are they happy with the board's cozy relationship with founder Peter Munk.

This quarter could be a catalysts for more changes at Barrick. Expect a rowdy gathering at the company's upcoming shareholders' meeting.

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*Disclosure: Robert Baillieul has no positions in any of the shares mentioned in this post.*

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1. Investing

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