



## Barrick Gold: 2013 a Year in Review

### Description

It has been an *annus horribilis* for the world's largest gold miner, **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX). Its shares have fallen by over 50% this year alone and it has taken billions in write-downs with its massive Pascua-Lama project in South America now in doubt.

As a result Barrick has embarked on a monumental turnaround strategy aimed at boosting profitability, strengthening its balance sheet and improving corporate governance.

### Just what went wrong?

A raft of factors came together to create the perfect storm and almost bring Barrick to its knees. Key among these was the company's sizeable load of debt which was largely brought on by overpaying for marginal projects to boost size and scale.

In addition, the demise of its Pascua-Lama mega-mine project in South America cost Barrick dearly. Not only were there cost blowouts and fines for environmental breaches, but by the end of the second quarter it had to write-down \$5.1 billion.

Barrick finally had to suspend development of the project with a Chilean court and environmental regulator imposing additional environmental conditions. This left Barrick admitting that the project was unviable in an operating environment with considerably softer precious metal prices.

This was an incredible blow for Barrick as Pascua-Lama had been touted as being one of the world's lowest cost, high ore quality mines. A considerable amount of Barrick's lower cost, higher margin production growth was set to come from this mine, which was originally forecast to commence production in 2014.

The final nail in the coffin was the end (pause?) of the gold bull market. Since the beginning of the year gold is down 27% at a level just above \$1,200 per ounce. The plunge that has occurred has brought into question the sustainability of a number of gold mining projects that had been acquired at the height of the bull market, which saw gold almost hitting \$1,900 an ounce.

## Can Barrick bounce back?

In a desperate attempt to reduce debt, Barrick recently made a \$3 billion equity issue, which increased its common share count by over 163 million shares. The proceeds of which will be used to cut Barrick's debt by 20%. While this doesn't provide a long-term solution to the company's balance sheet problems it certainly buys it time.

Investor concerns over Barrick's balance sheet and corporate governance have seen the miner embark on a management shakeup and rejuvenation of its board. With the miner promising more independent directors and a more transparent pay structure for senior company officers.

Another key goal of Barrick's turnaround strategy is to reduce its size while boosting cash flows and profitability. Management plans to do this by divesting the company of marginal assets, reducing costs and boosting lower cost production.

## What does all of this mean for investors?

Despite its many problems, Barrick is well ahead of many of its peers when it comes to adjusting to operating in the current environment. It's clear that the company is determined to 'clear the decks' and adjust its strategic direction.

A key indicator of the profitability of a gold miner is its all-in sustaining costs per ounce of gold produced. Not only does Barrick have one of the lowest in the industry, reporting \$916 per ounce for the third quarter, but it continues to fall, down by 9% in comparison to the same period in the previous year. This bodes well for Barrick's ability to remain profitable despite the softer gold price.

Barrick also appears to be considerably undervalued when its enterprise value of a mere 4 times EBITDA and forward price-to-earnings ratio of 8 are considered. But with continuing fears that the gold price may slide further as the Fed tapers quantitative easing, Barrick's share price may not have bottomed yet.

## Foolish final thoughts

It has been a tough year for Barrick. Not only has the company had to deal with softer precious metal prices but a number of questionable decisions made at the height of the gold bull market are impacting its performance.

However, with management clearly feeling the heat they have moved quickly to turnaround Barrick's fortunes. Now may not be the time for investors to panic despite Barrick's share price plumbing new lows.

## CATEGORY

1. Investing

## TICKERS GLOBAL

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

**Category**

1. Investing

**Date**

2025/09/11

**Date Created**

2013/12/10

**Author**

mattsmith

default watermark

default watermark