



Barrick Gold Could Be Worth \$35

Description

Watching the gold mining industry is like passing a car accident: you can't help but peek at the wreckage.

Companies are shutting mines left and right. Sagging metal prices have erased billions of dollars in investor capital. And firms are issuing equity just to keep the lights on.

Without a rally in gold prices, the casualties are bound to mount in 2014. But for contrarians that are willing to run into a burning building, there might be some good deals to be picked out of the smouldering ashes.

Barrick Gold (TSX:ABX, NYSE:ABX) is one example. While the company has been plagued by massive writedowns and corporate governance problems, some investors believe the miner is ripped for a shakeup. This could unlock a lot of value for shareholders in the New Year.

The only gold miner to own now

Let's not kid ourselves here. The fundamentals are Barrick are terrible.

In the past year the company has been forced to write off billions of dollars in assets, slash its dividend 75%, and lay off 30% of its corporate staff.

The company's operations have been in shambles. Construction at Barrick's flagship Pascua Lama mine, which straddles the border between Chile and Argentina, was suspended after long delays and going over budget. And billions of dollars in shareholder capital was flushed down the toilet during the firm's disastrous attempt to expand into base metals.

To top it all off Barrick's management team has been richly compensated for this poor performance. This was highlighted last year when incoming Chairman John Thornton was awarded a \$17 million signing bonus.

Normally in a situation like this, I'd be running to the exit. But new developments at the troubled miner suggest that the company is changing its ways.

First, new Chief Executive Jamie Sokalsky has promised to cut costs and optimized the company's portfolio. Last fall Barrick announced plans to sell, scrap, or curb production at its high cost mines. This should free up capital badly needed to pare down debt.

Barrick is also cleaning up its act in the boardroom. Founder and chairman Peter Munk, the quarterback behind the company's disastrous expansion, plans to resign at the company's annual shareholder meeting in the spring.

The firm has replaced several board members with new independent directors with actual mining experience. And Barrick has promised to review its compensation practices to better align them with the interests of shareholders.

This company is still a long way from winning back shareholder trust. But it's a step in the right direction.

This stock could be worth \$35

However, Barrick still has the potential to deliver plenty of more gains for shareholders.

In September Two Fish Asset Management, a small U.S. hedge fund, argued that the stock was trading at a discount to peers due to management's poor capital allocation track record and the company's conglomerate-like structure.

[Fund director J.R. Sauder has been pushing management](#) to spin-off its high-cost mines outside of North and South America, return more capital to shareholders, and refocus operations on a few high-quality properties. If such actions are taken, Mr. Sauder argues the stock could be worth as much as US\$45 per share – versus US\$19 at the time of this writing.

Of course, plunging metal prices means that those projections are likely optimistic today. However, in December *Barron's* estimated the [stock could be worth US\\$35 per share](#) (subscription required) if such actions were taken at current commodity prices.

Foolish bottom line

Management appears to be trying to win back the favour of shareholders. If they deliver, a slimmed down Barrick could deliver serious gains for investors in the New Year.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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