The Stock Picker's Guide to Barrick Gold for 2014

Description

Beaten-down gold heavy weight **Barrick Gold** (TSX:ABX)(NYSE:ABX) has had a difficult time since the end of the gold bull market in 2012. A loss of strategic focus and growing debt coupled with a buying spree that saw it invest in a range of marginal projects caused cash flows and profitability fall. That in turn put significant pressure on its share price, which plunged by almost 40% over the last year.

Along with a plunging gold price, there were fears that an over-leveraged Barrick would experience liquidity issues. But with the success of its equity offering and the ongoing divestment of non-performing assets, a leaner meaner Barrick is emerging.

A truckload of debt and a softening gold price resulted in liquidity issues

By the end of the third quarter of 2013, with gold continuing to edge lower, Barrick's debt had ballooned to over $15 billion, more than three times its funds inflow. This left Barrick particularly vulnerable to liquidity issues if the price of gold softened further, and many analysts felt that a prolonged drop in price to under $1,200 per ounce would present a serious issue for the company.

A softer gold price continues to affect Barrick's portfolio

The company has also announced that it intends to re-calculate its gold reserves at $1,100 per ounce, which is 27% lower than the $1,500 used a year ago and 11% lower than the current gold price. This will more than likely see a portion of the company's in-ground reserves become uneconomical to mine and lead to further write downs across a range of assets.

Barrick also expects to announce a further impairment charge for the fourth quarter 2013 against its troubled Pascua Lama mine in Chile. Already the company has written down over $5 billion in impairment charges against the mine and suspended operations. In an operating environment with softening precious metal prices, this is certainly not good news for investors.

Recent equity raising a success

A choppy gold price and a recent string of strategic blunders were not turnoffs to investors, with many jumping at the chance to buy into Barrick's equity raising. Barrick desperately needed to hit its $3 billion target in order to repair its over-leveraged balance sheet and maintain liquidity in the current operating environment.

Divestments continue

With the price of gold continuing to soften, Barrick announced that it would also proceed with divesting itself of non-performing and non-core assets. In December, Barrick announced the sale of its Plutonic mine in Australia to **Northstar Resources** for around $25 billon, with the deal to be closed in February.

Since then it has also announced that its Australian Kawona mine will also be sold to Northstar Resources for around $75 million. These divestments, along with a range of earlier asset sales, have raised $850 million. This bodes well for Barrick to continue raising funds from the sale of non-core assets, allowing it to pay down debt and boost the strength of its balance sheet.

Foolish bottom line

Last year was a tough one for Barrick, a series of questionable acquisitions and too much debt coupled with softer precious metal prices left the company vulnerable. But a successful equity raising and the ongoing divestment of non-performing assets have bought the company sufficient breathing room to adjust its operations to the current operating environment. As such I would expect to see Barrick's performance improve over the long term.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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