



## How Barrick Gold Will Recover From a Disastrous 2013

### Description

It's not surprising that James Solasky President and CEO of **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX) has called "2013 a tough year by any measure for Barrick". The company today reported a massive fourth quarter 2013 net loss of U.S.\$2.8 billion and a ghastly full year net loss of over U.S.\$10 billion. But surprisingly, Barrick's share price remained resilient, spiking by over 4% in morning trade.

This could just be the market recognizing that the worst is now over for Barrick with management having worked hard to clear the decks for a much improved 2014. Plus it wasn't all bad news with some clear signs that the company is well positioned to bounce back strongly.

### So just what was the bad news?

The key drivers of this astounding but not unexpected loss were further write downs across its operations including the beleaguered Pascua Lama project, totaling U.S.\$2.8 billion. These impairment charges included U.S.\$896 million for the Pascua Lama project, U.S.\$551 million for the Australia Pacific gold segment and U.S.\$300 million for the Veladero mine in Argentina.

Softer gold prices have also hit Barrick hard, with the precious yellow metal having plunged by 26% over the last year. As such Barrick's average price per ounce of gold sold in 2013 was U.S.\$1,272 or a 16% drop in comparison to 2012. Leaving a fourth quarter 2013 net loss of U.S.\$2.83 billion or \$2.61 per share and a full year net loss of U.S.\$10.37 billion or \$10.14 per share. But it wasn't all bad news for investors.

### Operational results remained strong

The company reported adjusted operational cash flow of U.S.\$4.2 billion, which despite being 30% lower than the previous year, highlights the underlying strength of Barrick's mining operations. It also reported full year 2013 all in sustaining costs – the best measure of a gold miner's profitability – had fallen by 10% in comparison to the previous year, to U.S.\$915 per ounce, highlighting that despite softer gold prices Barrick's gold production remains profitable.

It is also one of the lowest all in sustaining costs per ounce in the industry and the lowest among its peer group — **Goldcorp's** (TSX:G)(NYSE:GG) is U.S.\$1,031 per ounce and **Newmont's** ([NYSE:NEM](#))

estimated cost is U.S.\$1,075 per ounce.

More importantly, despite its many operational problems Barrick also reported 2013 full-year gold production of 7,166 ounces. That exceeded upper-end full-year guidance by 10% as well as being only 3% lower than the previous year's production.

All of these factors indicate that Barrick is well positioned to deliver over the coming year despite softer precious metal prices. Furthermore, it has significantly strengthened its balance sheet through a successful \$3 billion equity raising in late 2013, the proceeds of which will be directed towards paying down or terming out short-dated debt.

Another pleasing aspect of Barrick's performance was management's decision to recalculate its reserves in 2013 using a gold price of U.S.\$1,100 per ounce. This is far lower than the current price of U.S. \$1,298 per ounce and also significantly lower than the U.S. \$1,209 per ounce forecast by six of the world's big banks. By using this figure, Barrick's reserves drop by 26%, but it leaves plenty of fat should the price of gold soften further.

It is also significantly lower than the \$1,300 per ounce used by Goldcorp and Newmont to calculate their reserves, leaving Barrick far better positioned to weather any further fall in gold prices than either of those companies.

### **So what does this mean for investors?**

I believe this leaves Barrick as one of the best positioned gold miners among its peers in 2014. Management has certainly bitten the bullet and cleared the decks by using a low-ball gold price to calculate reserves and therefore mine viability while writing down non-productive and costly operations. Coupled with this, Barrick has one of the lowest all in sustaining costs per ounce produced among its peers, making it profitable even if gold prices slide further.

But if gold prices remain firm or even rise, then Barrick's profitability will grow, leaving it well positioned to further strengthen its balance sheet and reward investors. All of which makes it an attractive investment in the gold mining industry, particularly in comparison to higher cost peers like Goldcorp and Newmont.

### **Foolish bottom line**

The last year has been particularly painful for Barrick and its investors. But with management having acted quickly to stem the rot and clear the decks, the company is well positioned to rebuild its profitability in 2014.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSE:B (Barrick Mining)
2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:ABX (Barrick Mining)

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