Can Barrick Overcome Peter Munk's Painful Legacy?

Description

It's the end of an era at **Barrick Gold** (TSX:ABX)(NYSE:ABX).

Founder and co-chairman Peter Munk is due to retire at the company's annual shareholder meeting next month. How will history look back on this titan of industry?

In last weekend's *Globe & Mail*, Eric Reguly shared his take:

> *"Mr. Munk has a month left on the job. He will no doubt step down from the board with a standing ovation at the annual general meeting. In spite of the Pascua-Lama fiasco, he did build the world's biggest gold company and, for prolonged periods, created a lot of wealth for shareholders. He also spared Toronto from mining company oblivion during the hollowing-out era. While he lived well, he did give away much of his wealth – $200-million (Canadian) and counting – to good causes, such as the Peter Munk Cardiac Centre at Toronto's University Health Network."*

No doubt Mr. Reguly has well summarized the view from atop of the Canadian business establishment. But the shareholders who funded Munk's empire ambitions may have a different take.

A ridiculous destruction of shareholder's equity

The past decade has been marked by a long list of expensive mistakes under Munk's leadership. Cost overruns at the company's flagship Pascua-Lama mine are now in the billions. Barrick's attempt to diversify outside of the precious metals business and into copper resulted in a write-down of nearly $4 billion. And its bungled gold hedging program cost investors dearly.

Now all the company has to show for more a decade of missteps is a heap of debt. Last quarter, it recorded $23 billion in total liabilities.

All of which may have been acceptable if Muck had shared in the pain with rank-and-file shareholders. However, as of the company's last filing, Munk ranked as only Barrick's 66th largest shareholder, owning a measly 0.2% of the company's outstanding shares.

In exchange for this destruction of wealth, Barrick’s board rewarded Mr. Munk with a 67% raise in 2013. The directors also saw it fit to award incoming co-chairman John Thornton a spectacular $11.9 million signing bonus.

Last September, *Stock Advisor Canada* analyst Iain Butler highlighted the ‘ridiculous implosion of shareholder’s equity’. Over the past two fiscal years, Barrick’s book value per share – an important indicator of management performance – shrank from $23.35 a share to $11.62 a share today.

More telling is that over the past two decades, Barrick’s revenues have increased 25- fold. Yet today, Barrick shares are trading for about U.S. $20 — exactly where the price stood in 1992. That means everything management has done to expand the business, as Iain stated, “has been a complete waste of time/effort when viewed through the lens of the shareholders”.

However, if I had one number to summarize Peter Munk’s legacy, I would point out Barrick’s retained earnings: *-$7.6 billion*.

Retained earnings measure a company’s total net income less dividends paid to shareholders over the total life of the business. Even if we were to add back the dividends paid to investors, it reveals that Barrick has generated almost no profits over the last 30 years.

Things are starting looking better

The good news for Barrick shareholders is that the company is finally getting its act together.

New Chief Executive Jamie Sokalsky is leading a sea change at the troubled mining giant. Since taking the helm last year he has led a successful campaign to cut costs, pare down debt, and sell off low quality assets.

More importantly, there appears to be a radical change in the company’s operating philosophy. Management is starting to focus on shareholder returns rather than just producing more ounces. Hopefully, ‘new’ Barrick will be a smaller but more profitable company.

That’s not to say everything is hunky-dory. There is still plenty of room for improvements on the corporate governance front. And while Mr. Sokalsky represents a positive change at Barrick, the market still wants to know who will be calling the shots after Peter Munk’s departure next month.

Foolish bottom line

There’s a lesson for investors following the Barrick fiasco: Do not skip over the qualitative factors when evaluating a company. Stick to businesses where the executive team has a large ownership stake in the firm and ensure that management’s interests are well-aligned with shareholders. That was not the case at Barrick and it cost investors dearly.

CATEGORY

1. Investing

TICKERS GLOBAL

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

Category

1. Investing

Date
2025/07/02
Date Created
2014/03/18
Author
rbaillieul