



3 Reasons Why a Barrick-Newmont Merger Makes Sense

Description

Study after study has shown that large acquisitions tend to destroy shareholder value. They are often the result of a company just wanting to get bigger (“empire building”), which can lead to overpaying for sought-after targets. And over the last few years, there’s been no better poster-child than **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX). The company’s \$7.7 billion takeover of Equinox in 2011 is a perfect example.

Now it looks like Barrick may merge with **Newmont Mining** ([NYSE: NEM](#)). Although the two companies broke off talks recently, they had agreed on everything except which Australian and New Zealand-based mines to divest. Barrick and Newmont could very well resume talks after their annual general meetings at the end of April.

So Barrick’s shareholders should be worried, right? Not necessarily. Here are three reasons why Barrick shareholders should applaud such a merger.

1. Reduced costs

So-called synergies are always a rationale used to justify large mergers, but often fail to materialize. In this situation however, there are plenty of opportunities for cost savings. The two companies operate neighbouring mines in Peru, Australia, and (most importantly) Nevada. The larger company would also have more bargaining power with labour, suppliers, and governments.

Barrick and Newmont have identified \$1 billion in cost saving opportunities. Since the two companies together produced 12 million ounces of gold last year, the cost savings work out to about \$85 per ounce, just based on that rough math. This is not a small amount at all.

A fresh start

The past couple of years have not been kind to any of the gold miners, especially Barrick. Not only has the company had to deal with falling gold prices, but has also had to deal with operational and governance issues.

The new company would install Gary Goldberg, who currently heads Newmont, as CEO. The chairman

of the board would be John Thornton, current co-chairman of Barrick. Peter Munk is retiring.

Overall, there would be a mixture of executives and directors from both companies. This could provide the company a chance to start over, which would be a welcome relief to tired and frustrated Barrick shareholders.

As an added bonus, the new company could even adopt a new name. Barrick shareholders would probably support that.

Timing

A year ago, Barrick had just announced the deferral of its Pascua Lama project, leaving its shares in ruins. But since then, the stock price has been flat. Meanwhile, Newmont's shares have continued dropping, falling 24% over the past year. Since this is an all-stock merger proposal, Barrick shareholders get a much better deal now than they would have a year ago.

Based on current share prices, Barrick shareholders would own about 60% of the combined company. If this same deal had been done the year before, Barrick shareholders would own less than half.

If this deal goes through and gold prices recover, Barrick's executives will be commended for picking up Newmont while it was cheap.

Foolish bottom line

Even though this deal is officially off for now, that does not mean it is dead. And if it eventually goes through, it wouldn't be such bad news for Barrick's shareholders. In fact it might even provide some much-needed relief.

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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Date

2025/09/04

Date Created

2014/04/21

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