



Is Now The Time To Sell Barrick Gold? Or Buy?

Description

In a recent interview with *Financial Post*, outgoing **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX) Chairman Peter Munk described the failed Pascua-Lama project as “a f—k up of such magnitude that they’ll write books about it.”

Soon after those comments, Barrick was sued for \$6 billion in a class action suit, alleging that the company misled investors about the prospects for Pascua-Lama. Yesterday some of the company’s top executives were named in the suit, including former CEO Aaron Regent and current CEO Jamie Sokalsky.

So how worried should investors be? Should they sell the stock? Or has this created an opportunity to buy?

Some background

First, it is worth taking a look back at Pascua-Lama itself. The deposit straddles the border between Argentina and Chile (one can already imagine how this would lead to problems), but was supposed to be a low-cost deposit. When the project got the initial go-ahead in 2009, cash costs for the first five years were estimated at \$25-\$50 per ounce. This number was later revised downwards; in late 2012, cash costs were estimated to be between \$0 and negative \$150 per ounce (after silver by-product credits).

But the problem was the cost to build the mine in the first place. Back in 2009, the capital cost was estimated at \$3 billion. Barrick described these capital costs as “contained”. But by 2012, that estimate had been raised to \$8.5 billion. And the following year, a declining gold price, operational issues, and local opposition all doomed the project.

How big a problem is this lawsuit?

There's no denying that \$6 billion is a very scary number, representing nearly 30% of Barrick's total market value. The number is even scarier when looking at Barrick's balance sheet, which only has \$2.7 billion in cash.

But of course the plaintiffs can name any number they want in the lawsuit, and likely named a such big number in the hopes of getting a big settlement. After all, Barrick had not yet spent \$6 billion on the project before cancelling it.

So what should you do?

First of all, there's no reason to overreact to the lawsuit; these kinds of things happen all the time when companies underperform. But there are plenty of other reasons to avoid shares of Barrick.

The main reason is that the company [may not even be profitable at all](#) in this gold price environment. This means the shares are essentially a roll of the dice on gold prices. And if you're looking to bet on the price of gold, you're better off holding an ETF, like the **Gold Bullion ETF** ([TSX: CGL](#)).

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)
3. TSX:CGL (iShares Gold Bullion ETF)

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Date

2025/07/19

Date Created

2014/05/26

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