3 Reasons to Avoid Barrick Gold

Description

It's no secret that **Barrick Gold** (TSX: ABX)(NYSE: ABX) has had a rough few years. The shares, which were trading above $50 back in late 2011, have plunged since then due to operational mishaps, a falling gold price, and some big asset writedowns. On Tuesday, the stock price closed at $17.44.

So at this point, it can be tempting to buy some shares of the company in an attempt to score a bargain. After all, we should always try to be greedy when others are fearful. But there are reasons why Barrick's shares are still too expensive, and three of them are listed below.

1. Transparency

When analyzing a gold company, there's one question in particular that's very important to figure out: Just how much does it cost the company to get an ounce of gold out of the ground? Barrick makes that question very hard to answer.

The company reports a bunch of different metrics. Just last year, its "adjusted operating costs per ounce" were $566, but its "all-in sustaining cash costs per ounce" were $915 and its "all-in costs" were $1,282. This last number is of course particularly worrying because it is higher than the current gold price.

It would be preferable for the company to report two simple measures: first, the cost to find an ounce of gold, and second, the cost to actually mine it, process it, and transport it to market. Because Barrick obscures the picture, it looks very suspicious.

2. A lack of cash flow

Last year, Barrick made negative $1.3 billion in free cash flow in a year when the gold price averaged over $1,400. Even if one excludes the $2 billion spent (wasted) on the suspended Pascua Lama project, the company still brought in only $700 million. Remember, this is a company valued by the market at over $20 billion.

There are plenty of other companies that don't make a lot of cash because they're investing heavily in pursuit of growth. But Barrick's reserves actually shrunk last year, making it look like the company cannot make money with gold prices where they are.

3. Better alternatives

Not too long ago, investors would buy mining companies like Barrick to bet on the price of gold. Now the best way to make that bet is with an exchange-traded fund, such as the **iShares Gold Bullion ETF** (TSX: CGL). ETFs like these have numerous advantages over the miners, such as greater simplicity, no risk of operational mishaps, and low cost. There's also no need to worry about failed projects or corporate governance issues, something Barrick's investors can really appreciate.

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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