



3 Reasons to Buy Barrick Gold

Description

Fellow Fool contributor Benjamin Sinclair recently wrote an article called "[3 Reasons to Avoid Barrick Gold](#)". He did a fantastic job of laying out the bear case, but I believe **Barrick Gold** ([TSX: ABX](#))([NYSE: ABX](#)) offers irresistible value for investors seeking leveraged exposure to gold.

The company has been beaten down by a spate of bad news, leading to an overblown perception of risk in the market. This bad news included its overleveraged balance sheet (which forced Barrick to complete an equity raising at the end of 2013), marginal mining assets, the failed merger with **Newmont Mining** ([NYSE: NEM](#)), and a range of boardroom antics.

Barrick now looks particularly appealing as an investment, with the company having spent the end of 2013 clearing the decks. This consisted of writing down the values of a range of marginal assets, recalculating gold reserves using a significantly lower price, implementing cost reductions, and divesting itself of marginal assets. So let's take a closer look at why it is now one of the best opportunities for investors seeking exposure to the beaten-down gold mining sector.

1. Lower valuation than its peers

Over the last year, Barrick has seen its share price plunge by a massive 21% due to softer gold prices, a difficult operating environment, and operational issues. This has left the company with some particularly attractive valuation metrics. It has an enterprise value of a mere five times EBITDA, a low EV of \$281 per ounce of gold reserves, and a price of five times its operating cash flow.

These valuation ratios compare very favorably to many of its peers. This includes **Goldcorp** ([TSX: G](#))([NYSE: GG](#)), which has an EV of nine times EBITDA, an EV of \$378 per ounce of gold reserves, and a price of almost 12 times its operating cash flow. It also appears better valued than failed merger partner Newmont, which has an EV of nine times EBITDA and a price that is almost nine times its operating cash flow per share. However, Newmont does appear cheaper on the basis of its EV of \$189 per ounce of gold reserves.

These valuation ratios are particularly low and more appealing than those of precious metal streaming companies like **Silver Wheaton** ([TSX: SLW](#))([NYSE: SLW](#)) and **Franco-Nevada** ([TSX: FNV](#))([NYSE: FNV](#))

), which are perceived to be lower risk than gold miners. Silver Wheaton appears particularly expensive with an EV of 17 times EBITDA, while Franco-Nevada's is even higher at 19 times EBITDA.

These numbers emphasize just how undervalued Barrick is compared to its industry peers.

2. A diverse project portfolio

A particularly appealing aspect of Barrick is the company's unrivaled portfolio of geographically diversified gold mining assets, which are at different stages in their life cycles. This ensures the sustainability of Barrick's gold production and its ability to continue growing its gold reserves while mitigating operational, geopolitical, and regulatory risk.

Key among these assets under development is the Gold Rush project in Nevada, which is estimated to have 10 million ounces of gold resources and is currently undergoing feasibility testing. Another important project is the Turquoise Ridge mine optimization also located in Nevada, which has gold reserves of 6.7 million ounces.

A pre-feasibility assessment for expanding the mine is currently being undertaken, and if successful will provide Barrick with the opportunity to expand the mine's production by 75% over the next five to eight years.

The successful completion of these projects would significantly boost Barrick's production and ultimately, its bottom line.

3. Lower production costs than its peers

A key aspect of Barrick's performance that makes it particularly appealing for investors is that it's one of the lowest-cost operators among gold miners. For the first quarter of 2014 Barrick reported all-in-sustaining costs of \$833 per ounce of gold produced, which is 15% lower than the upper end of its 2014 guidance of all-in-sustaining costs of \$980 per ounce for the full year.

These all-in-sustaining costs are also 1% lower than Goldcorp's impressive \$840 per ounce and 19% lower than Newmont's \$1,034 per ounce for the first quarter of 2014. This indicates that Barrick is well positioned to both take advantage of any increase in gold prices and remain profitable should gold prices soften further.

Clearly, Barrick is undervalued by the market. It is attractively priced, has a range of high-quality mining assets, and has one of the lowest operating costs in the industry. This leaves it well-positioned to unlock value for investors over the remainder of 2014, particularly since it took its medicine at the end of 2013 by writing down the value of a range of marginal assets.

CATEGORY

1. Investing

TICKERS GLOBAL

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

4. TSX:FNV (Franco-Nevada)
5. TSX:WPM (Wheaton Precious Metals Corp.)

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