



3 Reasons to Follow in George Soros's Footsteps and Bet on Barrick Gold

Description

Renowned billionaire investor George Soros continues to place some big bets on a rally in precious metals prices, and one of the biggest he has made is a \$120 million bet on the world's largest gold miner, **Barrick Gold** ([TSX: ABX](#))(NYSE: ABX). It is easy to see why Soros has done this, with a range of macroeconomic, industry-specific, and geopolitical factors driving higher precious metal prices.

As the world's largest gold miner, Barrick has an appealing array of globally diversified mining assets, yet continues to remain underappreciated by the market due to a variety of problems affecting its performance late last year. Many of those issues have been dealt with, though, and now the company is well positioned to unlock value for investors as gold and other precious metals prices rally.

1. It's attractively priced

On the basis of a range of valuation metrics, Barrick is attractively priced, particularly in comparison to its peers. This is despite its share price having appreciated 25% over the last year. Barrick continues to trade with a very low enterprise value of six times EBITDA, which makes it cheaper than **Goldcorp** (TSX: G)(NYSE: GG), with an EV of 12 times EBITDA, and **Newmont** ([NYSE: NEM](#)), with an EV of nine times EBITDA.

It also has an EV equal to a mere \$281 per ounce of gold reserves, indicating that the market has yet to fully appreciate the value of this core asset. This is also significantly lower than Goldcorp's EV of \$378 per ounce of gold reserves, but higher than Newmont's EV of \$183 per ounce.

Barrick's price is also a mere six times its operating cash flow per share, significantly lower than Goldcorp's 12 times and Newmont's 10 times, further highlighting that the market has yet to appreciate its ability to generate cash flow from its operations.

These things underscore just how undervalued Barrick is when the scale of its geographically diversified operations and mining assets are taken into account.

2. It's one of the lowest-cost producers in the industry

Barrick continues to operate as a low-cost producer, allowing it to generate a solid profit margin per ounce of gold mined. For the first quarter of 2014 Barrick's all-in sustaining costs were \$833 per ounce, and the company is on track to achieve its full-year guidance of \$980 per ounce.

These all-in sustaining costs compare favorably to those of many of its peers, and are lower than Goldcorp's \$840 per ounce and Newmont's \$1,034 per ounce for the first quarter of 2014. When coupled with higher gold prices, these low costs leave Barrick well-positioned to deliver stronger financial results and unlock value for shareholders.

3. It cleared the decks and rebuilt its shattered balance sheet

One of the key issues facing Barrick at the end of 2013 was its high degree of leverage and its broken balance sheet, which the company has repaired through a successful equity raising and the sale of non-core or non-commercial assets.

A key component of this process was to write down a series of assets, including its deeply troubled Pascua-Lama project in Chile, which had been struggling with a range of regulatory and environmental issues.

Since mid-2013, the company has also sold over \$1 billion of high-cost and non-core assets, the proceeds of which have been used to pay down its debt. By the end of the first quarter of 2014 its debt had dropped 3% compared to the equivalent period in 2013, leaving Barrick with net debt of three times operating cash flow.

These factors highlight that Barrick is well positioned to cash in on higher gold prices and deliver value for investors, with the company still underappreciated by the market. Furthermore, with the majority of costs fixed and already priced into Barrick's 2014 guidance, even a slight increase in the price of gold will deliver a significant improvement in the company's financial performance.

Thus, it's easy to understand the massive bet Soros has made on Barrick, and the significant upside available to investors.

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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Author
mattdsmith

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