The Pros and Cons of Investing in Barrick Gold Corp.

Description

Among the largest Canadian companies, you'd be hard pressed to find a worse performer than **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX). The world's largest gold miner has consistently pursued the wrong strategy, made operational mishaps, and displayed poor corporate governance. As could be expected, the stock has not performed well, down nearly 60% over the last three years.

But now, with everyone hating the company, are the shares too cheap? Is this a company worth buying, or should you still stay away? In an attempt to reach a conclusion, below I look at two reasons to buy the shares, and two to stay away.

Why buy?

1. The overhaul

Last year was not a good one for Barrick. In February 2013, the company announced a $4.2 billion writedown of the assets it had acquired from Equinox in 2011. Then came a gold price plunge, further writedowns, the deferral of the Pascua Lama project, and a dividend cut.

Yet the year wasn't so bad for the executives, who still got big paychecks. Most notable was the announcement of a $17 million signing bonus for new vice chairman John Thornton. Investors were not happy.

In 2014, Barrick overhauled its compensation practices, putting a bigger emphasis on pay for performance. The company's CEO, Jamie Sokalsky, also stepped down this year. Looking ahead, if Barrick is able to put its shareholders first, then the company, and its share price, could perform very well.

2. The price

As mentioned, Barrick's share price has gotten an absolute beating, down 60% over the last three years. There are plenty of arguments why this is too much.

For one, gold could just be experiencing a temporary setback. Secondly, Barrick has made some dramatic improvements in its mining operations, including selling some high-cost mines. Finally, the Pascua Lama project could yet be restarted. If the environment shifts in Barrick's favour, then the shares could be worth a lot more than $20.

Why to avoid

1. Cost issues

Barrick is very coy when answering a very simple question: How much does it cost to mine an ounce of gold? On its 2013 annual report, three different measures are reported.

The measure that gets the most attention is "all-in sustaining costs", which excludes growth-based capital spending. This is quite odd, since the company is not actually growing production. When including all spending, it cost Barrick about $1,300 per ounce to mine gold last year, roughly equal to today's gold price. Unless the price of gold increases, there is a good chance that Barrick simply isn't profitable.

2. Track record

Wayne Gretzky was a great hockey player because he skated to where the puck was going to be, not to where the puck already was. Barrick seems to be the exact opposite, and has been that way for a long time. Whether it was hedging, acquisitions, growth, cost-cutting, governance overhauls, or asset sales, all of these actions were taken when it was too late. Ironically, they all would have been great ideas had they been done a few years earlier.

If you're a long-term investor, you want to find companies you can count on over the long term. Barrick has yet to show it is one of those companies.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
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