2 Reasons to Avoid Barrick Gold Corp., and 1 Stock to Buy Instead

Description

Every day, there seems to be a new story about **Barrick Gold** (TSX: ABX)(NYSE: ABX) and its continuing efforts to turn itself around. Most recently, the news concerns shakeups at corporate headquarters. CEO Jamie Sokalsky is stepping down, and the corporate development department is being eliminated.

The moves are just the latest in a long series of cost-cutting decisions. And to the company's credit, costs have decreased significantly. But the company's stock price remains depressed. Is this an opportunity to buy?

Well, not exactly. Below, we take a look at two reasons to avoid shares of Barrick and one stock to buy instead.

2 reasons to avoid Barrick

1. Short term vs. long term

At first, it may appear that Barrick has made some real progress on cutting costs. To illustrate, all-in sustaining costs came in at $865 per ounce in the most recent quarter, and all-in costs came in at $945 per ounce. A year ago, these numbers were $910 and $1,267, respectively. But this isn't as great as it first appears.

First of all, Barrick has sold some high-cost mines. For example, it sold three high-cost Australian mines last year right into a buyer's market, at what was surely a fire-sale price. Moves like that, which aren't real cost-cutting moves, have helped Barrick's numbers.

But even at existing mines, Barrick's cost-cutting may not be helping the company. For example, at Goldstrike (a large mine in Nevada), all-in sustaining costs decreased from $1,226 to $886 year over year. But that's because Barrick focused on mining much higher-grade ore. The company also cut sustaining capital expenditures by 15%. Such a strategy is not sustainable in the long run if the company wants to maintain production levels.

The important point is that Barrick has very little flexibility and must take drastic action to reduce costs. That includes selling high-cost mines at bargain prices, as well as foregoing what may be necessary investment. Shareholders may have to suffer some serious long-term consequences.

2. A culture problem

A source recently told *The Globe and Mail* that “morale is low” at Barrick headquarters. This is a lot like hearing that salt is salty.

With so many staff reductions, it can be difficult for a company to perform its best. Certain employees are likely spending part of their time updating their resumes. It will also be difficult to recruit top performers to work at the company.

These are the types of things that don’t show up in the financial statements and shareholders don’t get to see for themselves. But they still have a big impact in the long run.

1 stock to buy instead: Franco-Nevada

Franco-Nevada (TSX: FNV)(NYSE: FNV) is in the gold business, but doesn’t actually mine any gold itself. Instead, it enters into royalty agreements with producers, whereby Franco receives royalty payments in exchange for cash up front.

This makes Franco immune to many of the problems that beset regular producers, such as operational mishaps, capital cost overruns, and labour problems. Better yet, Franco has a wonderful track record, with its stock price having returned 16% over the past five years (compared to Barrick’s -12%).

So Franco-Nevada is simply a better way to bet on the price of gold, despite Barrick’s best efforts. And that will likely remain the case for a long time.

CATEGORY

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