3 Reasons to Avoid Barrick Gold Corp.

Description

When a computer crashes, there's a fairly standard way to tackle the problem: You turn it off, then turn it on again. And hopefully everything works like it did before.

It seems that **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX) is trying a similar strategy as it overhauls itself. Since Chairman John Thornton took over in April, he has eliminated the CEO position, dismantled the corporate development team, and made other changes to the organizational structure. On Monday, CEO Jamie Sokalsky formally stepped down, and his duties will be transferred to Mr. Thornton.

But restarting your computer doesn't work if you never had a good computer to begin with. And there are some things at Barrick that can't be fixed via management overhaul. On that note, below are three reasons why you should still stay away.

1. Inflexibility

No matter what Barrick does with its management team, its debt load still remains. In fact, at $10.6 billion, Barrick's debt level has actually increased since the start of this year. And, unfortunately, that forces the company into a very short-term mindset.

For example, earlier this year Osisko Mining was on the block. Other gold miners were bidding for the company, and at one point the price was very low. But Barrick was, of course, nowhere to be found. Instead, the company has been forced into selling its high-cost mines, again for a bargain price.

This should be very troubling because mining by nature involves making very large up-front investments and then reaping the rewards over many years. When a company is reluctant to make those investments, it can spell trouble over the long term.

2. High cost structure

For some time now, Barrick's primary objective has been cutting costs. And at first, it appears to have done so. For example, all-in costs came in at $945 per ounce of production in the most recent quarter, down more than 25% year over year.

But these cost cuts are not what they first appear. Part of it has been achieved by selling high-cost mines — with lower cost mines remaining, the overall cost figures, of course, will come down. Secondly, the company is cutting back spending at existing mines. Both of these moves could have a big impact on production longer term. Just this year, Barrick is expecting 6.0 million-6.5 million ounces of gold production, a big drop from last year's number of 7.2 million.

In fact, these first two points are related. Barrick seems to have cut some necessary — and beneficial — spending because costs needed to come down. And no one knows for sure what the long-term impact will be.

3. Poor culture

So what remains of Barrick? Well, first of all, practically all of the power is concentrated in Mr. Thornton's hands. This kind of situation can turn into a governance nightmare. Barrick investors better hope that Mr. Thornton does a good job and doesn't overpay himself. And morale is very low at Barrick headquarters. Again, it's hard to say what effect this will have, but it can't be good for the company over the long run.

So to sum up, Barrick still has a lot of issues to clean up. And if you're thinking of investing in the company, you'll need a lot of patience. Your best bet is just to stay away.

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