



Should Investors “Pivot” Back to Barrick Gold Corp.?

Description

The *Financial Post* is reporting that **Barrick Gold Corp.** ([TSX: ABX](#))(NYSE: ABX) is “pivoting” back to Nevada, which can be thought of as the company’s home base. This is after years of focusing on projects in other geographies, such as the failed Pascua Lama project in South America.

This is usually the kind of action that struggling companies should be taking. So below we take a look at whether this is the start of a much-needed turnaround.

An overextended company

To understand why Barrick is doing this, it’s important to first know the kinds of mistakes that were made in the past.

The biggest error occurred back in May 2009, when the company gave the final green light to the Pascua Lama project, on the border of Chile and Argentina. Capital costs were pegged at \$2.8 billion to \$3 billion. In 2012, the cost estimate was raised above \$7 billion, and a year later the project was shelved altogether. Chairman Peter Munk later said the disaster was so big that “they’ll write books about it.”

Or look at the 2011 purchase of copper miner Equinox for \$7.3 billion in 2011. Equinox had a large copper mine in Zambia, as well as a big deposit in Saudi Arabia. Only a year later, Barrick wrote down that investment by roughly \$4 billion in the fourth quarter of 2012.

Moves like that, as well as falling commodity prices, have left Barrick’s balance sheet in disarray. To illustrate, net debt stands at over \$10 billion. It’s understandable that Barrick wants to retreat to its home turf.

The strategy

While Barrick was growing in other geographies, its properties in Nevada were being somewhat neglected, and that is going to change. Of particular note is the Goldrush discovery, which contains 15 million ounces of gold. Over the long run, properties like these could be the key to Barrick’s turnaround

— if for no other reason, they prevent the company from repeating its overseas mistakes from the past.

Still some issues

There are still some serious flaws with this story.

For one, these properties won't be producing gold for many years. Having just come back from a trip to the site, respected analyst Greg Barnes of TD Securities said that Goldrush is seven to nine years away from production. Normally, this shouldn't be so much of a problem, as long as investors are willing to think long term. But given Barrick's balance sheet, seven years of capital spending without production may be too big a pill to swallow.

There's another problem: Gold prices have been plummeting. This is an especially big problem for Goldrush since it was discovered in 2011, the same year that gold prices peaked at roughly \$1,900 per ounce. So with gold currently trading at barely \$1,200 per ounce, these Nevada projects may not be economical at all. The fact is, it's too early to conclude anything at this point.

So your best bet is to stay away from Barrick. This is certainly a step in the right direction, but only the first. More are needed to woo investors back.

CATEGORY

1. Investing
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1. TSX:ABX (Barrick Mining)

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