



## 2 Things You Need to Know Before Investing in Barrick Gold Corp.

### Description

**Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) is aggressively trying to turn itself around and rid itself of the reputation of being a high-cost, high-debt gold producer. When gold prices were elevated, investors seemed to have little concern over the company's debt and cost operating structure, and they flocked to the stock, betting high gold prices would continue to overshadow the company's financial shortcomings. This scenario quickly changed, however — when gold prices fell, Barrick Gold's stock was one of the fastest declining of the gold miners.

Since gold's precipitous price drop, Barrick Gold has had to clean up its act. To survive the changing times, the company has shaken up management and is focusing on producing from its lower cost assets while selling certain higher cost assets. A turnaround can certainly be a strong investment case if you can buy a company for a rock bottom price and benefit from its ascent, but is Barrick Gold really positioning itself for future success? Here are two reasons why the company may not end up better off.

#### 1. Cost-cutting may fail

Barrick's adjustments benefited the company's costs in the most recent quarter. In the second quarter Barrick Gold produced 1.485 million ounces of gold at all-in sustaining costs of US\$865 per ounce, in the comparable quarter last year Barrick Gold's all-in sustaining costs were US\$916 per ounce.

Even with the cost reductions in the second-quarter, the company may end up with higher operating costs in 2014 compared to 2013. In the recent results, Barrick Gold cuts its full-year, all-in sustaining cost guidance to US\$900-\$940 per ounce versus its previous forecast of US\$920-\$980 per ounce. If the company manages to come in at the low-end of that range it will be a better result than the all-in sustaining costs of US\$915 per ounce experienced in 2013.

If, however, the company is at the mid to top end of that range, it will have seen operating costs go up. Given the company's expectation that production this year will decline to 6 million-6.5 million ounces compared to the 7.17 million ounces produced in 2013, the company has the potential to report increased costs at the same time production is falling, which will really bring into question how successful Barrick Gold's changes can be.

## **2. Barrick may be damaging its future**

Barrick Gold found itself between a rock and a hard place, and was forced to dramatically cut costs. When it comes to Barrick Gold there are questions over the efficacy of the cost cuts and their long-term implications. There have been some concerns that the company did not get enough money for the assets it sold. Even if the assets they shed were high-cost operations selling these assets for less than they are worth bring into question if the company is jeopardizing long term success for questionable short-term gains.

The company also cut sustaining capital expenditures by 15%, which means that it's not spending as much money as it used to expanding its current assets. It makes sense to curb asset expansion when metal prices are low, but combined with the company's asset sale, Barrick Gold opens itself up to the potential to cut assets too dramatically.

While the cost-cutting is necessary for Barrick to survive in the short-term, there comes a point where cost-cutting impacts long-term prospects. Too aggressive cost cuts can actually increase unit costs, while focusing solely on improving short-term costs can lead to mining practices that are unsustainable over the long term. Another negative — if production is cut too dramatically the company may miss out on the next bull market for gold.

### **To invest or not to invest?**

There are some valid concerns that Barrick Gold's cost-cutting attempts may not be effective, and even worse, these changes may be coming at the expense of the company's long-term success. Therefore, even with shares near a 52-week low right now, Barrick Gold is not, in my opinion a good option for a gold investment.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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