3 Reasons Why Barrick Gold Corp. Shares Could Keep Plummeting

Description

The past three years have been nothing short of a disaster for **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX) and its investors. Over this time, failed projects, failed acquisitions, falling gold prices, and corporate governance issues have all done serious damage to the company's prospects. And the shares have fallen by a staggering 68%.

Granted, the company has taken many steps to reform itself, including new management and governance practices. Mines are being sold, and costs are being cut. Could this be the start of a turnaround?

Well, not necessarily. Below, we highlight three reasons why the company's shares could keep plummeting.

1. Falling gold prices

Times have certainly changed since gold prices neared $1,900 per ounce in 2011. Since then, prices have fallen by more than a third, and now trade just a shade above $1,200. Predicting future prices is next to impossible, but there are reasons why the metal could easily fall further.

First of all, if you look at how many gold ounces are needed to buy a house or how many gold ounces make up an average salary, then historical averages suggest gold should trade below $1,000 per ounce.

Secondly, about a third of gold demand comes from investors. And gold certainly seems like a less appealing investment now than it used to. If interest rates eventually rise, then gold may look even more unattractive. So if that investment demand decreases, then prices could easily fall a lot more.

2. Falling production

Barrick has been wildly praised for its new strategy, which involves selling assets and dialing back capital expenditures. But this comes with an unfortunate side effect: falling production.

In 2014, Barrick expects to produce 6.0-6.5 million ounces of gold, down from 7.2 million ounces last year. And the forecast's price assumptions for gold, silver, and copper are all above today's spot prices. And if commodity prices continue to fall, then Barrick will have to keep evaluating its operations. Many of them require heavy capital investment, meaning they could easily be shelved.

3. The balance sheet

I know what you're thinking: Who cares if Barrick's production falls? If it's being a more responsible company, then maybe falling production is a necessary evil. After all, it's shareholder value that should matter more than anything else.

While this is true, there is one major obstacle: the balance sheet. Barrick's net debt currently stands at over $10 billion. Granted, almost all of this debt is very long term. But a scaled-down Barrick still has to service this big debt load.

And this debt overhang could shape the company's strategy for the worse — for example, some necessary capital expenditures could easily be forgone. That would spell further trouble for the company's shareholders.

Luckily, there are good alternatives to Barrick shares. Five are detailed in the free report below.

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