Can Barrick Gold Corp. Survive If Gold Drops to $1,000?

Description

Over the past three years, gold prices have tumbled from nearly $1,900 per ounce to just over $1,200. And it's practically impossible to predict where prices will head from here.

That being said, there's a serious possibility that prices could fall further. Over a third of gold demand comes from investors, and if gold looks like a less-appealing investment (say, due to rising interest rates), then that demand could fall. Furthermore, gold is still relatively expensive by historical standards.

So with this in mind, you have to wonder what happens to the gold miners if prices fall further. Because if you're thinking of investing in a miner's shares, this is a very serious risk. On that note, below we take a look at **Barrick Gold Corp.** (TSX: ABX)(NYSE: ABX), and ask what would happen if gold fell to $1,000 per ounce.

Some strong cost-cutting

Needless to say, Barrick has had countless problems for many years. The gold price plunge was just the latest. And in response, the company has cut costs drastically. The latest quarterly numbers illustrate that fact.

In Q2 of this year, all-in sustaining costs came in at $865 per ounce, down from $910 the previous year. Even more dramatically, all-in costs (which include growth-related capital expenditures) fell to $945 from $1,267, primarily from suspending the failed megaproject Pascua Lama.

So with these costs under $1,000, does that mean Barrick can survive another gold price drop?

Some quick math

If Barrick meets its guidance this year, it will produce 6.25 million ounces at a "sustaining" cost of $920 per ounce. So at a gold price of $1,000 per ounce, that would equal $500 million in gross profit. Subtract from that roughly $800 million in interest payments.

So this scenario would result in losses of about $300 million per year, pretax. With over $2.5 billion in cash, it appears that Barrick can survive a further correction for quite some time.

The news gets worse

Unfortunately, the analysis above leaves out a few critical points. Most importantly, it assumes that Barrick can maintain production. This assumption may not be valid, precisely because mines are always depleting, and big expenditures are always required to maintain production levels.

To illustrate, Barrick produced 7.2 million ounces of gold last year, so production has already shrunk substantially. Part of this has been due to selling high-cost mines, but production at many existing mines has shrunk as well.

So if Barrick remains unwilling to spend big dollars (or is unable to get an adequate return on investment), and production falls as a result, then the company's $13 billion in debt will become an even greater burden. This presents a serious risk for shareholders.

The verdict

As it stands, the company's cash balance will keep the company afloat, even under the direst of circumstances. But the risk of a gold price fall is still too much to ignore. You should avoid shares of Barrick.

Luckily, there are better alternatives. The free report below reveals five of them.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/07/23
Date Created
2014/10/21
Author
bensinclair