



Why Barrick Gold Corp. Could Find Itself In Serious Financial Trouble

Description

A couple of months ago, **Goldman Sachs** made a big splash in the gold market, by saying that there's a risk the metal could drop below \$1,000 per ounce. More recently, noted commodity investor Chen Lin, in an interview with *The Gold Report*, said that miners need to be prepared for this reality.

So below, we take a look at the arguments made by Goldman Sachs and Chen. Then we look and see what that would do to **Barrick Gold Corp.** ([TSX: ABX](#))(NYSE: ABX).

Will gold really drop that low?

Analyst Jeffrey Currie of Goldman Sachs made some straightforward arguments about why gold could decline. First of all, global economies are gradually improving (even if the progress is painfully slow). This would have a negative effect on gold – remember, the metal peaked when people were most worried about the Eurozone. Mr. Currie also said that an end to economic stimulus in the United States should eventually lead to rising interest rates, another negative for gold. The bank's gold price target for 2014 is \$1,050.

More recently, Chen said he fears Goldman is “leading a group shorting gold aggressively”, arguing that the company wants to be right about such a bold prediction on the gold price. If that sounds like a crazy conspiracy theory, then don't be too quick to judge – Chen is not alone in his beliefs.

What will that do to Barrick?

We all know the story with Barrick. It expanded too quickly during the peak years, and wasted an enormous sum of money on a failed project (Pascua Lama) and a failed acquisition (Equinox). More recently, it has been selling assets and cutting costs. Unfortunately, this has led to declining production, and the company's net debt remains above \$10 billion. This, combined with a falling gold price, has caused Barrick's shares to decline by 70% over the last three years.

So what would happen if gold declined to \$1,000? Well, Barrick plans to produce roughly 6.2 million ounces this year, at an all-in sustaining cost of \$900. Let's suppose it can do the same in future years. That would result in \$100 in profit per ounce, and just over \$600 million for the year. Unfortunately, that

doesn't even cover finance costs of \$800+ million.

And eventually, unless Barrick is able to grow production (or cut costs further), the financial burden will be that much greater. Debt will become due. Mines will be depleted. And cash could get squeezed.

So in other words, if Goldman's prediction comes true, Barrick may find itself in serious financial difficulty. I think that risk alone is too great for anyone to hold Barrick shares.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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