



Could Barrick Gold Corp. Hit \$30 in 2015?

Description

Investors in **Barrick Gold Corporation** ([TSX: ABX](#))(NYSE: ABX) are wondering if the stock will ever regain its shine and deliver the returns the assets are capable of producing.

The story has been one of big egos and bad decisions for a number of years. Barrick took on massive levels of debt as it focused on growth at all costs, with an expectation that gold prices would run way beyond the \$1,921.50 per ounce reached in September 2011.

Barrick missed out on a lot of the profits during the big run-up in the price of gold due to hedges it had in place at lower levels. Timing isn't exactly Barrick's specialty. The company decided to cancel its hedging program in late 2009, and had most of its positions closed by the end of 2010. The move looked good for most of 2011 but the price of gold has since fallen nearly 40% to current levels.

Throw in some expensive changes at the senior management level and a \$5 billion expenditure on the now-halted Pasqua Lama project and you get a company that looks like one big disaster.

Where's the gold lining in the story?

Barrick plans to bring its debt load down to about \$7 billion from the current level of about \$13 billion. That's an encouraging sign that management is finally getting its act together. Considering Barrick's market cap right now is only about \$16 billion, the move is essential.

Pasqua Lama has been a money pit and will continue to be one if Barrick decides to proceed. The company said it wants to drop another \$4 billion to put the project back on track.

The finance guys at Barrick must have a magic abacus because it is difficult to see how they will reduce the debt load by \$6 billion and proceed with Pasqua Lama without annihilating shareholders in the process.

New management changes at the company can be viewed in two ways. The announcement of Shaun Usmar as the incoming CFO should be positive for the company. Usmar is known as a turnaround expert and Barrick certainly needs some help. At the same time, the decision to hire Usmar indicates

the company feels it needs to act fast to address the debt issue.

Gold prices are going to determine the ultimate fate of Barrick. At \$1,200 an ounce the company is still making money. In its Q3 2014 earnings statement, Barrick reported earnings of US\$222 million or US\$0.19 per share. The encouraging part of the report was the company's all-in sustaining production cost of US\$834 per ounce. Barrick previously expected 2014 average costs of \$900 to \$940 per ounce but the company now says average costs for the year should be between \$880 and \$920 per ounce.

The bottom line

Restructuring efforts could be painful for shareholders in the short term, as Barrick will probably dilute the stock to address the debt issue. The company holds a fantastic portfolio of assets and is doing a good job of driving efficiency into its operations. If gold prices move higher through 2015, shares of Barrick could rise substantially from current levels. For the stock to double, there will have to be a big catalyst in the market.

Buying Barrick right now requires the belief that the long-term outlook for gold is positive and that the company will restructure itself in a way that is not overly dilutive to shareholders. It is certainly a contrarian bet, and one that should not be taken without a clear understanding of the downside risks.

If Barrick is too volatile for your portfolio, take a look at the following free report on one top stock that is both stable and delivers consistent dividend growth and capital appreciation.

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Date

2025/08/04

Date Created

2014/11/28

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