Why Barrick Gold Corporation and Newmont Mining Corporation Could Finally Merge in 2015

Description

Barrick Gold Corporation (TSX: ABX)(NYSE: ABX) and **Newmont Mining Corporation** (NYSE: NEM) have attempted mergers a few times in the past, three times in the past seven years to be exact, but each time talks broke apart for one reason or another.

The latest merger talks last spring didn't work out, with the two miners unable to agree on small details of the deal. But the reason why talks came about in the first place, cost synergies, will become even more important for the two miners in 2015 and a merger may actually come to fruition.

Cost savings couldn't be more imperative

Gold miners are dealing with a new economic climate. It has been obvious for years that gold mine grades are decreasing and it's becoming harder and more expensive to find and mine a valuable resource. A few years ago when gold was at its peak, this wasn't as much of a crisis as it is now that gold prices have slid. At the same time, prices are expected to remain lower for the forseeable future thanks to a strong U.S. dollar and the inevitable increase in interest rates.

Cost synergies from proposed merger undeniable

Both Barrick Gold and Newmont Mining have been dramatically cutting costs to prepare themselves to better survive the new gold market. The additional cost savings that they could achieve from merging are undeniable. In fact, according to some estimates, a merger could result in $1 billion in cost savings.

Shareholder pressure

Over the past 10 years, Barrick Gold's stock has fallen 52%, leaving shareholders with a negative 5% per year return. The returns are even worse for shareholders who purchased the stock five years ago. Over that time period the stock is down 71%. Newmont Mining stock is down 56% over the past 10 years, 60% over the past five.

Both companies really have to shape up and start offering shareholders a return or they may run into difficulty attracting new investors and keeping old ones. Individually, both companies have aggressively cut costs to turn themselves around but with low gold prices this has yet to offer a tangible return to shareholders. Both companies have to do something, quickly.

While a merger might not be the complete answer, the large cost savings that a combination would result in are a very good start for both miners to start seeing increased profits, and in turn a higher stock value. With the gold market forecast to remain challenged next year, 2015 might be the year that the two miners finally agree to play nice, and come to an agreement that would result in a very large gold miner, an estimated three-times the size of the next largest gold miner, **Goldcorp Inc.**

CATEGORY

1. Investing

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1. NYSE:B (Barrick Mining)
2. NYSE:NEM (Newmont Mining Corporation)
3. TSX:ABX (Barrick Mining)

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lklingel