Why One Analyst Thinks You Should Avoid Barrick Gold Corp at All Costs

Description

For once, gold investors are getting some good news. The metal rose once again on Sunday, thanks to some concerns about U.S. wage data, reaching a one-month high of US$1,227.

And over the past month, some gold miners' share prices have responded very nicely. **Yamana Gold Inc.** is up 13%, **Kinross Gold Corporation** is up 15%, and **Agnico Eagle Mines Ltd.** is up nearly 25%.

Unfortunately for **Barrick Gold Corp** (TSX:ABX)(NYSE:ABX) investors, the company's stock price has not performed so well, down 4.4% over this time. So does that now make Barrick the best bargain among the gold miners?

Well, not necessarily. On Wednesday, Macquarie Capital Markets analyst Ron Stewart downgraded the company to "underperform", with a target price of $11 per share. This is about 15% below the current share price of $13, as of this writing.

Most analysts have at least a "hold" rating on Barrick, with many saying you should buy the stock. So why is Mr. Stewart so negative on the company? Below we take a look.

Poor financial condition

Barrick's errors over the past few years are well known. The two biggest are the failed Pascua Lama project in South America and the Equinox acquisition. Combined, they have led to over US$14 billion in writedowns, a number that exceeds Barrick's current market value.

These mistakes have also put Barrick in a tough financial hole, with over US$13 billion in debt. Granted, less than US$1.0 billion is due by the end of 2017. But this burden is expected to cost the company over US$800 million in 2014 alone.

As a result, Barrick cannot afford to see the gold price go down. In fact, assuming Barrick keeps costs and production constant, it will have trouble meeting interest payments if gold falls to US$1,000 per ounce.

Longer term, the outlook could get a lot worse. Debt will come due, and interest rates probably will have risen by then. Production could also drop — Mr. Stewart is forecasting a 25% fall in production by 2019. If gold prices haven't recovered by then, Barrick could find itself in serious jeopardy.

Uncertain strategy

To Barrick's credit, it is devoting the bulk of its investment spending to Nevada, a geography it knows very well. But Mr. Stewart has his doubts about the techniques Barrick is using to increase production. For this reason, he doesn't think the company will reach its production targets. At this point, it's hard to say.

Management turmoil

Making matters worse, Barrick's head office has looked like a soap opera over the past three years. Two CEOs have been let go, most recently Jamie Sokalsky in July. Today, the company is led by Chairman John Thornton — who is considered the de-facto CEO — and two co-presidents. Is this really a company you want to be a part of?

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