Why Investors Should Avoid Barrick Gold Corp.

Description

Senior gold miner **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) has been disappointing investors for some time. Despite making a number of bold moves to restructure its business, the jury is still out as to whether it offers value for investors. Since delivering some disappointing numbers for 2014 and recent weakness in gold, there are growing fears that Barrick isn't capable of delivering for investors in 2015.

So what?

In 2014 Barrick's gold production fell by almost 13% year over year primarily because of its asset divestment program that sold US$166 million of non-core assets over the course of the year.

There are fears that production will continue to decline in 2015, with Barrick set to sell further assets in order to pay down its massive pile of debt, totaling almost US$13 billion. The company intends to reduce this debt by at least US$3 billion by the end of the year, and to do so will require considerable assets sales. These assets, despite being classified as non-core assets when sold, will cause Barrick's gold production to decline even further.

Any significant drop in production will impact Barrick's earnings particularly hard, especially because gold has plunged by 10% since hitting a 2015 high of US$1,300.70 per ounce.

Nonetheless, Barrick's low all-in-sustaining-costs (AISCs) will help to offset weaker gold prices. For 2014 Barrick reported AISCs of US$864 per ounce of gold produced, the lowest of any of the senior miners. These prices are expected to remain low, with Barrick forecasting 2015 AISCs between US$860-895 per ounce.

However, weaker gold prices are expected to be part of the landscape for gold miners in 2015 and into 2016, with a surging U.S. dollar and weak oil prices applying considerable pressure to gold. A number of analysts have predicted gold will fall to US$1,100 per ounce, and even as low as US$900 per ounce. Now, with the Fed expected to raise interest rates this year as the U.S. economic recovery continues unabated, there is a real possibility of gold sliding under US$1,000 per ounce.

If gold falls to these levels, Barrick's profitability will certainly suffer and its bottom line will be hit hard, despite its low AISCs. The company will also be forced to wind down production at its high-cost mines, causing gold output to decline even further.

There is also the question of the troubled Pascua Lama project in Chile, which will remain uneconomical at low gold prices, but continue to cost Barrick in excess of US$140 million annually to maintain.

Now what?

With gold prices expected to soften significantly over the remainder of 2015, now is certainly not the time for investors to consider gold miners. This is particularly the case for Barrick, as it is struggling with a range of problems that will continue to impact its financial performance in the foreseeable future. At this time investors would do better to invest in those stocks with exposure to the resurgent U.S. economy.

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Author
mattdsmith