3 Scenarios Where Barrick Gold Corp. Could Be the Next Allied Nevada Gold Corp.

Description

As recently as 2012, gold miner **Allied Nevada Gold Corp.** (TSX:ANV)(NYSE:ANV) was worth more than $5 billion. Fast forward to today, and the equity is likely worthless. It's no secret what led to the company's downfall: low gold prices, a big debt load, and operational problems at its Hycroft mine in Nevada.

To be fair, plunging gold prices have not helped any of the miners, and mines can be difficult to run. So, that brings up a very obvious question: who's next?

The candidate that jumps out is **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX), the world's largest gold miner. Barrick has struggled with exactly the same problems that Allied Nevada has, although they haven't been as severe for Barrick. If Barrick's problems get any worse it could easily be next. On that note, below are three scenarios in which Barrick could be the next Allied Nevada.

1. Gold prices drop below US$1000 per ounce

Before we begin, I must make a very important point. Barrick's debt load of US$13 billion certainly jumps off the page, but there are two things working in the company's favour. First, this debt is very long term; only 8% of the total amount is due before 2018. Second, the debt is almost entirely fixed rate. So, even if interest rates rise, Barrick doesn't have to pay much more.

That said, Barrick isn't out of the woods—interest payments this year alone are estimated at just over US$800 million. To cover this, Barrick plans to mine ~6.4 million ounces, with an all-in-sustaining cost of ~US$880. Using these numbers, Barrick won't make enough money to cover interest payments if gold falls below US$1,005.

Barrick does have US$2.7 billion in cash, which will help during any rainy days. However, there are other expenses not accounted for by the US$880 all-in-sustaining cost, such as exploration and corporate overhead. So, if gold falls below US$1000 (perhaps due to increasing interest rates in the United States), Barrick may find itself on the edge.

2. Gold stays at US$1,200 for five years

It's time to state the obvious: mines don't last forever. For this reason, Barrick must spend billions of dollars just to keep production levels steady. Otherwise, the mines eventually run out and debt payments can't be met.

Barrick hasn't run into this problem yet. Production did decline last year, but that's partly because some high-cost mines were sold off. The company also expects its current portfolio to provide 6 million+ ounces of production through 2017.

Eventually, the company will need to plunk down some serious cash right as debt payments start ratcheting up. If gold languishes until that time, then the company may find itself in an impossible situation.

3. Another Pascua Lama

To give Barrick credit, it is simplifying its business—more than half of capital expenditures are now in Nevada, a geography the company knows very well.

That said, not everyone has been won over. Analyst Ron Stewart at Macquarie Capital Markets calls Barrick's expansion plans at Goldstrike "complex and risky." He also questions the company's plans at Turquoise Ridge, noting the area's poor ground conditions.

After Barrick wasted billions on failed project Pascua Lama, it cannot afford a similar disaster. If Mr. Stewart is right, this risk remains.

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Date
2025/07/22
Date Created
2015/03/25

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