

Earnings Preview: 2 Things to Watch for When Barrick Gold Corp. Reports Next Week

Description

Low gold prices have crushed the mining industry, leaving some industry stalwarts struggling to hold on.

Barrick Gold Corp ([TSX:ABX](#))(NYSE:ABX) has been particularly hard-hit. Over the past few years, the company has laid off thousands of employees, scrapped several mines, and written off billions of dollars in assets. However, new Chairman John Thornton has a plan to right the business.

Can he pull it off? Barrick is due to report earnings next week and investors are eager to hear an update on Thornton's turnaround efforts. Let's take an early look at what we're likely to see in the quarterly report.

Stats on Barrick Gold

Analyst EPS Estimate	\$0.12
Change From Year-Ago EPS	(40%)
Revenue Estimate	\$2.3 billion
Change From Year-Ago Revenue	(11.4%)
Earnings Beats in Past Four Quarters	2

Source: Yahoo! Finance

How badly will Barrick Gold's earnings get hurt this quarter?

Mining companies are simple to understand. When commodity prices fall, the value of their production goes down. That's why the recent drop in spot gold rates have hammered the industry.

Barrick's previous earnings report showed just how hard the company has been hit. Last quarter, the Toronto-based firm posted a US\$2.9 billion loss, mostly due to big write-downs at the company's Lumwana and Cerro Casale projects.

You can expect more of the same next week. Since the start of the year the street has trimmed their earnings estimates for the upcoming quarter by 40% to only \$0.12 per share. Analysts expect the company to earn \$0.60 per share in all of 2015, down 12% from what Barrick hauled in last year.

It's no surprise that after years of asset write-downs and lousy returns, investor trust in the company is low. However, new Chairman John Thornton is trying to change that. After taking the helm last April, he announced a three-pronged approach to revamp the business, by

1. returning Barrick back to its early, highly entrepreneurial business model;

2. cutting the company's debt load by US\$3 billion; and
3. becoming a best-in-class capital allocator.

One year in and the turnaround is still a work in progress. Mr. Thornton has made a lot of headway by cutting costs and selling off unprofitable properties. However, investors have yet to see these improvements show up on the bottom line.

Management's goal to cut the company's debt load is also looking ambitious. There are few buyers on the market looking to scoop up a new gold mine. So, unless executives want to sell off assets at fire-sale prices, trimming Barrick's liabilities will be a challenge.

However, the real story this quarter could be management compensation. Last year shareholders revolted over Mr. Thornton's proposed \$17 million pay package. Then in March Barrick disclosed that it was giving the chairman a 36% pay hike, which was also criticized by investors.

Barrick argues that the raise is justified, saying in a statement that its compensation committee "recognized Mr. Thornton's rapid progress in implementing a series of transformational initiatives at the company that are fundamental to Barrick's long-term strategy for delivering sustainable shareholder returns.

We have already seen the results across the business, with improved free cash flow generation, more efficient decision-making, a clear strategy, concrete initiatives to reduce debt, and a whole new level of rigour when it comes to capital allocation."

In some ways Barrick can be commended for its revamped compensation practices. The new objective is to significantly increase management's stake in the business. In theory, this would better align the interests of executives with shareholders.

But since Mr. Thornton became chairman last April, Barrick's share price has slid more than 20%. For a company that has not done much for shareholders, it seems a little early to be handing out bonuses. They are drawing up plans to turn the company around, but many would like them to right the ship before the board grants a raise.

Bottom line, Barrick is about to post another ugly quarterly report, but investors need to look beyond the headline numbers. Watch to see if the company is delivering on its turnaround goals. For the stock to fare well, Barrick needs to keep cutting costs in order to make the most of low gold prices.

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