



Is This the Beginning of the End for Barrick Gold Corp.?

Description

Not much has gone right for **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) in the past couple of years. A poorly timed acquisition, a botched mega-project, and falling gold prices have left the company with US\$13 billion in debt, along with a severely reduced stock price.

To get itself out of this mess, Barrick has made its intentions very clear. Capital discipline is the number one priority, meaning the company will be much more careful with its money than in years past. Barrick also hopes to reduce its debt load by US\$3 billion.

So, we should expect to see some serious cutbacks. But could that lead to other problems?

A cutback in Nevada

As part of Barrick's renewed discipline, it is planning to spend over half its capital budget in Nevada, an area of high familiarity for the company.

But even Nevada has not been spared from the budget cuts. On Friday Barrick pulled out of an agreement to develop the Gold Ridge property. The move wasn't even announced by Barrick, but rather by **Coral Gold Resources Ltd.**, a small exploration company that would have been Barrick's partner in the region.

According to Coral, Barrick simply didn't have room in its budget to develop the property.

We could see some big problems

To help meet its debt reduction goal, Barrick's capital budget has been slashed. The company has already identified US\$200 million in capex reductions and expects more to follow. Coral Ridge is just one example.

On the surface, this may seem like the right thing to do, especially given Barrick's history. But the company has another problem: it is shrinking. After producing over seven million ounces of gold last year, Barrick expects roughly 6.4 million ounces in 2015. If production continues to shrink, then dealing

with that massive debt load will be much harder to manage.

This won't be a big problem today, nor in the next couple of years. But at the end of the decade, a big chunk of Barrick's debt will come due. If the company's production is way down by that time, then dealing with these repayments could be a big challenge. That's a serious possibility if exploration budgets continue to get cut.

The beginning of the end?

I'm not saying that Barrick is making the wrong moves. But the next few years could be a big struggle, and the stock price doesn't fully reflect these issues. As an investor, your best bet is to stay very far away.

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Date

2025/09/28

Date Created

2015/05/19

Author

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