



The Pros and Cons of Investing in Barrick Gold Corp.

Description

It's safe to say that **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) has seen better days. The company was once an industry darling, with its share price quadrupling between 1989 and 1996. But since then its share price has actually decreased sharply, even though gold prices have skyrocketed.

So, that brings about an obvious question: Can Barrick reclaim its former glory? And will that translate into big gains for shareholders? Below we take a look.

Why the odds are against Barrick

Let's start with Barrick's biggest hindrance, which is its debt level. At US\$13 billion, Barrick's debt is an enormous financial burden, and will cost the company at least US\$800 million in 2015. To put this in perspective, Barrick must pay nearly US\$130 in interest for every ounce of gold it expected to mine this year.

This has forced Barrick to cut back on some of its capital programs. The budget for so-called projects has been reduced to \$150-200 million, down from \$234 million in spending last year. Likewise, "Mine-site expansion" expenditures are set to decrease by about 50%.

This could easily have a long-term impact on Barrick's production totals, which would not help the company service its debts. Worse still, a good chunk of this debt starts coming due towards the end of this decade. If gold prices sink in the interim, the situation will be that much grimmer. Barrick could find itself in serious financial trouble.

Why Barrick can turn it around

Since John Thornton assumed the role of executive chairman, he has made a lot of prudent moves: costs have been cut; high-cost mines have been sold off; debt reduction has become the top priority.

Notably, the capital budget is more heavily focused on familiar geographies. Approximately 85% of the exploration budget is directed towards the Americas, and 50% is dedicated towards the state of Nevada. This could lead to some big breakthroughs, including increased production at Goldrush, a new

mine at Turquoise Ridge, and a big underground expansion at Cortez.

It's true that Barrick may need more funding to achieve these goals. But as the world's largest producer, it could easily raise more equity in a worst-case scenario. And in a best-case scenario, gold prices would start rising again. This would dramatically increase cash flow, and make it easier to sell off unwanted mines.

The verdict

At this point, Barrick is still an incredibly risky stock, one that could easily sink lower. The biggest factor will obviously be future gold prices.

I would hold off for now because the downside is far too high.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

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Author

bensinclair

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