Is Barrick Gold Corp. Riskier Than its Peers?

Description

With its stock down roughly 80%, the past five years have not been kind to **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) investors. Even in the past 12 months shares are down nearly 30%.

While many believe now is the time to buy following a correction in gold prices and an even more severe correction in gold miner stocks, there are a few reasons why you should avoid Barrick Gold and replace a potential investment with one of its better-positioned peers.

A terrible history of relative returns

While returns on capital for gold miners have predictably suffered due to lower gold prices, we can still get a sense for how well each company navigated the turbulence by comparing their returns on a relative basis.

Last year's return on assets (an indicator of how well management invested shareholder capital) was the lowest among its peer group at -8.21%. Meanwhile, **Newmont Mining Corp.**, **Eldorado Gold Corp.**, **Goldcorp Inc.**, and **Iamgold Corp.** all posted better returns than Barrick Gold.

Using leverage dangerously

When taking on debt, companies can magnify shareholder returns to levels higher than the underlying business can generate on its own. While this is valuable in times of positive returns, leverage can also magnify losses.

While Barrick Gold posted a return on assets of -8.21% last year, its return on equity (which takes into consideration leverage) was a whopping -24.53%. This is due to the company's heavy debt load, which is higher than all of its major competitors.

While its four main peers have an average debt-to-equity ratio of 0.3 times, Barrick Gold has an intimidating 1.27 times debt-to-equity ratio. While this can generate higher than average returns during good times, this has put the company under considerable financial stress under current conditions.

In 2011 Barrick Gold issued about $6.2 billion of debt, and in 2012 it added another $607 million. While it has since paid down about $1.5 billion (bringing the total to $12.7 billion), the company is still highly levered. If investors believe that gold prices will rise moving forward, now would be the time to start adding leverage, rather than Barrick's mistimed strategy of doing so when gold prices were much higher.

Cost of production a saving grace?

There does seem to be one bright spot for Barrick Gold: it's one of the lowest-cost producers in the industry.

At $864 an ounce, Barrick Gold has a lower all-in cost of production than Newmont Mining ($1,102/oz.), Goldcorp ($950/oz.), and Iamgold Corp. ($1,101/oz.). Only Eldorado Gold at $780 an ounce has a better cost structure.

While this has bought the company some time to navigate lower gold prices, it's still notable that the company has managed to squander its cost-advantage and post incredibly poor investor returns.

Pick something else

No matter what your future prediction of gold prices is, you're better off avoiding Barrick Gold and its terrible track record of investments and daunting debt load. Whether you buy one of its competitors or avoid gold miners altogether, Barrick Gold shares are best left alone.

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Date
2025/08/26
Date Created
2015/06/11
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