



## How Barrick Gold Corp. Could Make its Stock Price Pop

### Description

At this point, it seems that **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) has no good options left.

The company is saddled with US\$13 billion in debt thanks to some big past missteps, and gold prices are stuck at US\$1,200. If the gold price falls much further, then interest costs would eat up the bulk of Barrick's mining profits.

Executive Chairman John Thornton is taking some important steps, hoping to reduce Barrick's debt by US\$3 billion this year. He divested a couple of non-core mines in May, including a 50% stake in the high-cost Porgera mine. Some capital budgets have been cut.

But even these steps have their downsides. With the gold mining industry struggling to deal with low prices, no one really wants to buy a high-cost mine (unless there's a bargain price tag). And cuts to capital budgets could hurt production numbers in the years ahead.

So, what should Mr. Thornton do? And how likely will he take these steps? Finally, is this a good opportunity to buy Barrick?

### The "core" mines

Barrick identifies five of its mines—Goldstrike, Cortez, Pueblo Viejo, Lagunas Norte, and Veladero—as "core mines." These operations account for about 60% of Barrick's production, and are generally very low cost. For instance, Goldstrike is expected to produce at least one million of ounces this year at a cash cost of US\$700-800 ounces. Naturally, Barrick likes to highlight these mines when speaking to investors.

These mines would also be in very high demand, both by investors and by rival gold companies. And here lies the opportunity.

Barrick's first option—probably the least desirable choice—is to sell one of the mines. This could be done either through an IPO or through an auction. If Barrick doesn't want to give any of these mines up, perhaps it could sell a minority stake in one or more of them.

Another option is to sell royalties on these mines. Companies like **Franco-Nevada Corporation** and **Silver Wheaton Corp.** would certainly be willing to pay top dollar. This is something Barrick has done before—Franco owns a big royalty on Goldstrike, and Silver Wheaton helped fund the now-stalled Pascua Lama project.

### How likely is it that this will happen?

I wouldn't count on Barrick taking these steps. It would require lowering production guidance (or in the case of royalties, raising cost estimates) at the company's prized core mines. So, even if it helps raise billions of dollars, thus significantly reducing the debt load, none of this matters.

This is too bad because it's probably Barrick's best option for improving its financial condition, and it would likely cause the stock price to pop. If I were a shareholder, I'd be upset by this. And as long as I'm not a shareholder, I have no interest in becoming one.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

### TICKERS GLOBAL

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

### Category

1. Investing
2. Metals and Mining Stocks

### Date

2025/07/21

### Date Created

2015/06/16

### Author

bensinclair

default watermark