



Barrick Gold Corp's. Turnaround Could Start Today

Description

Barrick Gold Corp. ([TSX:ABX](#))(NYSE:ABX) is saddled with US\$13 billion in debt, and Executive Chairman John Thornton wants to reduce this number by US\$3 billion this year. The company has put some non-core gold mines up for sale, but getting a fair price isn't easy with gold prices stuck below US\$1,200 per ounce. So at first glance, it seems that Barrick is stuck.

However, there's another option, one that [I've suggested previously](#). Barrick could sell a royalty to a company like **Franco-Nevada Corporation** or **Silver Wheaton Corp.**

Mr. Thornton must have been listening. According to *The Globe and Mail*, Mr. Thornton is considering selling a royalty or stream at the Pueblo Viejo mine in the Dominican Republic.

Pueblo Viejo

Pueblo Viejo is considered one of Barrick's "core" mines, and for good reason. It is the lowest-cost gold mine in Barrick's portfolio, with all-in sustaining costs (AISC) of less than US\$600 per ounce. It's also expected to contribute about 10% of Barrick's total attributed production this year.

If Barrick were to sell the mine outright, it would certainly draw a lot of bidders. But there's no way Barrick would auction off any of its core operations.

A far better alternative

Royalties and streams are a fantastic business model. After all, if you own a royalty, you don't have to build any mines. You don't have to deal with rising costs. You don't have to negotiate with workers. All you have to do is cash your cheques. To illustrate, Franco-Nevada has only 20 employees.

So, to no one's surprise, investors love royalty companies, and are willing to accept a lower rate of return. This reduces the cost of capital for companies like Franco. As a result, these companies are able to accept lower returns when signing royalty agreements.

So, if a company like Franco-Nevada were to sell a royalty to Barrick, it could easily be a win-win.

Barrick could get a big cash payment up front, money that would be used to pay down debt. Franco would also get a deal that satisfies its shareholders.

The only downside for Barrick is that Pueblo Viejo's AISC would increase. So, that wouldn't be good for the company's investor presentations. But this is a small price to pay, one that shouldn't hold Mr. Thornton back.

One alternative

In a recent interview, Franco-Nevada Chairman Pierre Lassonde said the company doesn't have to bid competitively for most of its deals. So, Barrick may have trouble getting a fair deal, given the lack of competition out there.

If there aren't enough bidders for a Pueblo Viejo royalty, Barrick could create a new royalty subsidiary, sell the royalty to this subsidiary, then sell it to the public through an IPO. It would be a more complicated process, but could allow Barrick to meaningfully reduce its debt. And that would give a big boost to the stock price. In any case, it's great to see Mr. Thornton taking the first step.

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1. Investing
2. Metals and Mining Stocks

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2. TSX:ABX (Barrick Mining)

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