



Is Barrick Gold Corp. a Steal at \$10?

Description

On Monday **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) shares fell below \$10 for the first time since June 1990. At that time, Michael Jordan had yet to win his first NBA championship. Star actress Jennifer Lawrence hadn't yet been born. The reunification of West and East Germany was still months away.

Clearly, we've come a long way since then, and there have been some big changes at Barrick, too. At the time, Barrick was producing 600,000 ounces of gold per year, and its Goldstrike mine was still ramping up. Fast forward to today and Barrick is producing over six million ounces of gold per year, including roughly one million from Goldstrike.

When considering all of this, it's incredible that Barrick's stock trades at the same level it did back then. But that leaves the all-important question unanswered: is the company a bargain at this price?

Why we're here

It's no secret why Barrick's shares have fallen so far. A failed acquisition and a failed project have left the company with US\$13 billion in debt, and falling gold prices have only added to the pain.

Meanwhile, the company infuriated its shareholders by paying Executive Chairman John Thornton US\$13 million in 2014. It was a big raise for Mr. Thornton, even though Barrick's share price fell by a third last year.

More recently, gold has fallen even further thanks to Chinese selling and a strong U.S. dollar. Of course, Barrick's shares have not reacted well, falling 16% on Monday to close at \$9.58.

How cheap is this stock?

Based on the current stock price, Barrick is valued at about US\$9 billion. But the company had US\$10.6 billion of net debt. So, this means its entire mining operations are being valued at nearly US\$20 billion. This includes about US\$3 billion worth of copper mines. Thus, its gold mines are valued at about US\$16.5 billion.

Is this a bargain? Well, Barrick expected to produce roughly 6.4 million ounces of gold at an all-in sustaining cost of US\$880 per ounce. At current gold prices, that equals pre-tax profit of about US\$1.5 billion.

Therefore, you'd be paying about 11 times pre-tax profit for a business that will need substantial investments to keep itself from shrinking. Personally, I'd rather pay 11 times *after-tax* earnings for a Canadian bank.

So, why haven't Barrick's shares fallen further? Well, perhaps existing shareholders don't want to sell Barrick at a loss. Likewise, bargain hunters may be drawn to the company's stock, which at first glance looks really cheap. Barrick is also a way for gold enthusiasts to bet on the metal, which may be increasing demand for the shares.

No matter the reason, Barrick is still a struggling company, and its shares don't fully reflect that. There are better opportunities elsewhere.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:B (Barrick Mining)
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