Is Barrick Gold Corp. About to Turn the Ship Around?

Description

Earlier this year **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) Executive Chairman John Thornton set out what seemed like a very ambitious goal: reduce the company's net debt by US$3 billion in 2015. At the time, there were plenty of doubters.

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But now Mr. Thornton has nearly reached his goal. How has he pulled this off? More importantly, is this the start of Barrick's comeback?

A string of moves

Mr. Thornton has been especially busy in recent months. In late May Barrick announced the sale of its Cowal mine in Australia to Evolution Mining for US$550 million. Just a day later Barrick announced it had sold 50% of its Porgera mine in Indonesia. That move raised another US$300 million.

Then in late July Barrick sold half of its Zaldivar copper mine in Chile to copper giant Antofagasta, raising another US$1 billion. And most recently, the company sold a royalty on its Pueblo Viejo mine in the Dominican Republic, raising another US$610 million.

Altogether, these deals have raised roughly US$2.5 billion, bringing Barrick very close to its goal. Better yet, the company has just announced further cost cuts, lowering its guidance for 2015 all-in-sustaining costs to US$840-880 per ounce.

Despite all these steps, Barrick's shares are still down by more than 25%. So, is this an opportunity to buy a reformed company at a discount?

Still a risky proposition

Despite Mr. Thornton's efforts, Barrick remains an incredibly risky company for a number of reasons.

Let's start with gold prices, which have slid significantly this year. The U.S. Federal Reserve is considering raising interest rates in September, which could easily cause gold to tank further. All of a sudden, $1,000 gold doesn't look very far off. And Barrick has even made plans for what to do if gold falls to $900.

Such a scenario would be very bad news for Barrick. Remember, the company is still heavily indebted. Making matters worse, Barrick has had to cut production forecasts after all its asset divestitures. Cost cutting could also impact production numbers down the road.

By the end of the decade, the company could face a serious cash crunch. Debt will become due, and mines may need substantial capital expenditures by then. If gold prices don’t rebound in the interim, Barrick will have few options left.

Of course, Barrick can still turn the ship around, but this will require higher gold prices. So, for that reason the stock remains far too risky. You should look elsewhere.

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