Barrick Gold Corp. Is Dramatically Shedding Debt: Is it Enough?

Description

As with many gold miners, **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) entered the last gold bear market with way too much debt. When lower selling prices crushed revenues, collapsing profits had a tough time matching up with massive interest payments. Earnings are expected to drop nearly 50% this quarter and another 13% next quarter.

With debt payments taking up an increasing share of profits, Barrick is at risk of missing out on the next gold bull market. For now, it appears as if the company is doing something about that.

An unprecedented level of debt reduction

The company set a debt reduction goal of $3 billion for 2015, with plans to reduce debt by an additional $2 billion by the end of 2016. While many were skeptical when the plan was first laid out, it looks like Barrick will be able to meet its first (and toughest) goal for 2015.

It started by slashing its capital spending from $2.4 billion in 2014 to $1.7 billion this year. It proceeded to organize multiple asset sales such as its Cowal mine and a 50% interest in its Zaldívar copper project. With its latest deal, the company has now raised a total of $2.7 billion, only $300 million shy of its full-year objective.

Credit agencies aren't impressed

Last month, Barrick had its credit rating downgraded by **Moody's Corporation,** which believes its asset sales won't be enough to reduce the company's debt fast enough, especially with gold hitting new lows. Moody's cut Barrick's rating to Baa3 from Baa2, one level above junk status and in line with Standard & Poor's BBB-assessment of the company.

"Barrick has been downgraded because its leverage will remain elevated even after announced asset sales, material organic debt reduction is unlikely and production will start declining in the next several years," said Moody's analyst Darren Kirk.

One step back, half a step forward?

While selling assets helps Barrick in the short term, it pressures long-term revenues and profits by shedding gold-producing mines. For example, its Porgera project (of which Barrick recently sold a 50% stake) accounted for roughly 7% of the company's gold output. In all, Barrick's asset sales have the potential to reduce gold production by nearly 10% this year.

With the company still having a long way to go in bringing down its debt burden, asset sales could be robbing Peter to pay Paul.

Set up for long-term success

The main question for most is whether Barrick's current valuation makes an investment worth considering. For now, investors shouldn't view Barrick as a gold miner, but rather as a turnaround story. Even if gold prices rebound, the company will have 90% of its focus on reducing debt, not raising output or expanding mines.

If you're considering buying a position for its gold exposure, you would better off buying less-leveraged companies such as **Yamana Gold Inc.** (TSX:YRI)(NYSE:AUY) or **Goldcorp Inc.** (TSX:G)(NYSE:GG). With lower debt loads, those companies should have the financial flexibility to navigate then next gold rebound effectively.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. NYSE:B (Barrick Mining)
3. TSX:ABX (Barrick Mining)
4. TSX:YRI (Yamana Gold)

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/08/04
Date Created

2015/09/15
Author
rvanzo