Has Barrick Gold Corp. Lost its Mojo?

Description

It was one of those weeks that **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) investors want to forget quickly. Shares of the gold miner are now down 14% in five days as of writing, thanks to Barrick's first-quarter earnings report which didn't go down well with the market. After a remarkable turnaround in 2016, Barrick not only surprisingly missed consensus estimates for Q1 but also downgraded its production outlook.

Is this the beginning of a bear run for Barrick Gold? Not quite; the market may have overreacted to Barrick's numbers.

What's ailing Barrick?

Barrick earned adjusted net earnings of US$0.14 per share on revenues worth US$1.99 billion, falling short of consensus estimates of US$0.21 earnings per share (EPS) on revenues worth roughly US$2.2 billion. Note that I'm looking at adjusted earnings here, because Barrick earned significantly higher net profits in Q1 thanks to asset-impairment reversals worth US$1.13 billion on its Cerro Casale mine, which will now be developed.

Management listed several factors that hurt adjusted earnings, including higher mining costs, depreciation, and exploration and evaluation expenses. Maintenance affected production at one of its key mines: Pueblo Viejo.

Barrick's all-in sustaining costs (AISC) also came in substantially higher at US$772 per ounce versus US$706 an ounce in the year-ago period. That isn't necessarily bad, as AISC also accounts for sustaining expenses like capital expenditures, exploration, and development studies.

Finally, Barrick downgraded its full-year guidance to 5.6-5.6 million ounces from 5.6-5.9 million ounces.

The bad news ends there, and you'll see why things aren't as bad as they've been made to appear.

Three things investors are missing

I'll get straight to the point and give you three reasons why the market is wrong about Barrick.

Low production because of the stake sale: Nearly two-thirds of the drop in production estimates is because Barrick is selling 50% stake in Veladero mine to China-based Shandong Gold Group for US$960 million under a partnership that entails exploiting resources in the El Indio Gold Belt on the Argentina–Chile border. So, while low production will hurt in the near term, Barrick is also leveraging its portfolio to grow in untapped regions while using Veladero proceeds to repay debt.

Debt reduction and growth plans are intact: Barrick is on track to reduce its debt to US$5 billion by 2018, and aims to remain free cash flow positive at gold prices of US$1,000 an ounce. Meanwhile, Barrick hasn't taken its eyes off growth. Aside from Shandong, it will jointly operate its Cerro Casale mine — one of the world's largest undeveloped mines — with **Goldcorp,** while expanding its existing Goldrush and Turquoise Ridge mines. All of these moves should drive Barrick's production higher in the long run.

Full-year AISC outlook is intact: This, by far, is the most important takeaway from Barrick's seemingly disappointing report. Barrick still expects its FY 2017 AISC to range US$720-770 an ounce, which makes it the most cost efficient gold miner, despite lower production. Low AISC and higher free cash flow should also mean stable dividends for investors going forward.

Long story short, Barrick's dramatic drop is exactly the kind of opportunity long-term investors shouldn't miss.

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