



Barrick Gold Corp.: New Uncertainty Heading Into Earnings

Description

There was some market relief after **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) announced a breakthrough in negotiations with the Tanzanian government that aimed at resolving the impasse between Barrick's subsidiary, **Acacia Mining Plc** and the host government, but a subsequent event indicates the deal may become fragile before the ink is even dry.

Acacia's shares soared by up to 40% in London last Thursday, when Barrick and the Tanzanian government officials held a joint press conference to announce a newly negotiated business framework for Acacia's mining operations.

A host of new "punitive" clauses has been introduced to the contracts during negotiations, where Barrick was partaking from a seemingly losing position.

Tanzania is to get a free 16% stake into Acacia operations and share 50/50 of the economic benefits from the new entity to be created, which shall take over Acacia's assets, while Acacia will pay US\$300 million to the host government as a show of good faith.

The export ban and disputed taxes are issues yet to be resolved.

Harsh terms?

Judging from the fallout between the government of Tanzania and Acacia management, since the government imposed an export ban on mineral ore concentrates in March that has severely affected the miner's revenues, cash flows, and operating profits, it was to be expected that the outcome of the negotiations wouldn't be that favourable to Acacia and Barrick.

Understandably, Barrick had to budge to government pressure after Tanzania had enacted new laws meant to coerce mining investors into ceding significant rights and economic benefits to the government in renegotiated contracts.

However, even if the disputed US\$190 billion tax bill slapped on Acacia is yet to be dealt with in a working group, Tanzania had the option to demand up to 50% equity in Acacia in exchange for the

“outstanding amount.” Settling for 16% seems a favourable indication that Tanzania is still keen on keeping Acacia operations foreign controlled.

Fragile deal?

There could be some significant fragility in the new deal after Acacia’s CFO reportedly told analysts that Acacia had no capacity to pay the US\$300 million while no formal proposal had been presented to Acacia for consideration yet.

While Barrick believes that Acacia could make staggered payments towards the full amount, the Tanzanian president reportedly told the Barrick team, “I need you to pay without delay ... so that we can inject the money into road and railway construction projects.” Some of the money will be channeled towards a hydroelectric power project and purchase of hospital drugs.

Tanzania is treating the negotiations as a must-win economic war; any delays may not be tolerated.

The comment by Acacia’s CFO could be a preemptive sign that management is not supportive of the negotiated settlement, and since the deal requires Acacia’s board and investor approval, Acacia executives could easily put spanners in the way and stifle any progress to preserve their current jobs.

However, it is important to note that Barrick had “mistakenly” stated that it would pay the bill before making a clarification later. The majority investor could end up chipping in to save the situation.

Most noteworthy, Barrick is evidently giving in to Tanzania’s demands so as to salvage the investment value trapped in Acacia — a stake it has been unsuccessfully trying to dispose of since 2012. It has to do all it can to keep the investment operational.

Foolish bottom line

Barrick is battling to save the situation in Tanzania to avoid a potential government takeover of Acacia Mining, but the hostile relations between the host and Acacia are at all-time lows, threatening any progress.

While there is new hope for the continued operations in Tanzania, investment returns to Barrick will be significantly lower going forward.

Barrick has already reported a production drop for the third quarter (Q3 2017) due to the Tanzania squabbles. This has negative implications for both the top and bottom lines, while Barrick may yet again be forced to bleed cash flow to “bail out” Acacia in the short term if need be.

The company’s earnings call this Wednesday may provide some guidance on this issue, while Barrick has to look to its other operations for production, profitability, and cash flow growth for the fourth quarter.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/25

Date Created

2017/10/24

Author

brianparadza

default watermark

default watermark