



## Why Did Barrick Gold Corp. and Teck Resources Ltd. Shares Fall More Than 7% on Thursday?

### Description

Shares in **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and fellow resources giant **Teck Resources Ltd.** ([TSX:TECK.B](#))(NYSE:TECK) fell by 7.26% and 8.64%, respectively, on the TSX on Thursday, as investors re-evaluated valuation metrics on the two mining giants.

While both miners recently reported third-quarter (Q3 2017) earnings that narrowly missed analyst estimates, Teck Resources released some impressive profitability and revenue growth as compared to the same period in 2016, and lower revenues for Barrick were to be expected since the company's production guidance in September.

Given this background, why then did the market suddenly decide to severely punish the mining giants' stock during Thursday's trading hours?

### Barrick Gold Corp.

Barrick reported a narrow earnings miss after market close on Wednesday, mainly driven by lower gold production, lower gold prices, as well as the impact of the nagging Tanzania developments involving the company's subsidiary, **Acacia Mining Plc.**

The gold miner also reported significantly lower operating cash flow than those for the comparable period last year, primarily as a result of lower gold sales, higher cash taxes paid during the quarter, and higher operating costs.

That said, the major impact on the share price can be attributed to Credit Suisse Securities analyst Anita Soni's downgrade of Barrick's stock performance to "neutral" while cutting the price target on the counter by 8.33% to \$22, citing weaker operational results so far in 2017.

The analyst believes that the turnaround momentum for Barrick has slowed, and that investor attention will shift to the "weaker operational results in 2017" year to date (YTD), the value loss at Acacia, and Barrick's relative production profile against its peers "over the next three years."

Credit Suisse has thus reduced its target net asset value (NAV) multiple for Barrick from two times, which was above a peer average of 1.85-1.70 times.

There is still some [significant uncertainty](#) regarding Acacia's final settlement terms in Tanzania, where a working group will decide on its US\$190 billion controversial tax bill, and Barrick's tax provision of US\$172 million during Q3 could prove too little.

Moreover, during the conference call on Thursday, Barrick COO Richard Williams commented that the US\$300 million "good faith" payment to Tanzania was essentially a "down payment" as "there's more work to be done."

Acacia may be required to pay more, and Barrick investors won't like that.

Worse still, the price of gold price on the market did not help either, with gold futures shedding US\$10.16 to trade at US\$1,268.75 during the day, down from nearly US\$1,279 an ounce at market open.

The market price of gold significantly affects the valuation of gold mining stocks, as NAV multiples are mainly used for valuation of resource extraction entities.

Even though Barrick has shown significant progress in reducing debt by almost US\$1 billion last quarter and has already surpassed its 2017 debt-reduction target, investor confidence has been shaken lately, and the company may need to surpass targets to boost confidence again.

### **Teck Resources Ltd.**

Teck Resources delivered some impressive Q3 2017 results on Thursday, with adjusted profits almost quadrupling from their level a year ago. While this was a stellar performance, the results were still short of analyst expectations.

The greater devil was in management guidance for the fourth quarter (Q4 2017) for realized average prices for coal, Teck Resources's chief earnings generator.

Although management sees a good outlook for coal market prices this quarter, realized prices are likely to be about 85% of benchmark prices as a larger portion of Teck's Q4 sales will be in non-premium coal.

Teck usually realizes 90-95% of benchmark prices, and this new weaker pricing revelation puts a dent on Teck's revenue growth and profitability margins outlook in the near term.

The market may have harshly judged Teck's prospects after this guidance and overlooked a potential supplementary dividend being considered, a strong copper price resurgence, and the coming online of Teck's Fort Hills project in a few months, which could boost cash flows and business growth.

### **Final thoughts**

While there is some reason to worry about developments on Barrick Gold in the near term, new low-risk projects are expected online by 2020.

The market may have overreacted to Teck's coal price guidance, but the stock still [has growth potential](#).

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