



Is Barrick Gold Corp. (TSX:ABX) Running Out of Gold?

Description

The latest [gold bull market](#), which began in mid-2016, was a life saver for beaten-down gold miners, which were battling to survive the protracted slump in gold that emerged after the great bull market of 2011 came to an abrupt end. As a consequence of that downturn, there was a dearth of investment by gold miners in exploration and mine development because the price of gold fell below the marginal cost of supply.

That has created a situation where some senior miners — notably, the world's second-largest **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) — have seen their gold reserves dwindle, leaving them exposed to the very real risk of running out of gold.

Now what?

Over the last decade, Barrick's gold reserves have declined substantially. By 2017, the miner's reserves had fallen to 64.5 million gold ounces, or less than half of the 140 million ounces reported at the end of 2011. At Barrick's current rate of production, those reserves have a life of 12 years — possibly even less because the miner is focused on expanding its gold output.

Some of that noticeable decline in reserves can be attributed to Barrick making a significant number of asset dispositions over that period because of its focus on rebuilding its fragile balance sheet.

However, Barrick also slashed spending on exploration and development, as it battled to become profitable in a difficult operating environment where gold dropped to under US\$1,100 an ounce.

The problem isn't only restricted to Barrick. It is an industry-wide problem which has been created by a lack of investment in exploration in response to sharply weaker gold prices. By 2016, industry data showed that exploration budgets had fallen to their lowest point in 11 years. While the gold rally, which began in 2016, saw miners boost their exploration budgets, they are still far lower than what they were in 2012 when the last great gold bull market was coming off the boil. This becomes apparent when reviewing Barrick's exploration budget of up to US\$225 million, which is almost half of the US\$429 million that Barrick invested in 2012.

The lack of exploration activity has seen a dearth of major gold finds in recent years. According to industry data, there have been no major new gold deposits discovered in excess of 15 million ounces over the last decade. Industry insiders believe this will eventually create a supply crunch that will give gold a solid boost.

Despite the pressure on gold miners to boost reserves, merger and acquisition activity in the industry has remained relatively subdued for the first half of 2018. One of the largest deals thus far was **Hecla Mining Company's** US\$462 million acquisition of intermediate gold miner Klondex Mines Ltd., giving Hecla ownership of the Nevada Fire Creek underground mine.

The only deal of note completed by Barrick since the start of 2017 is the May 2018 investment of US\$38 million to acquire an almost 20% stake in junior miner **Midas Gold Corp.** That junior miner is developing the 4.6-million-ounce open-pit Stibnite gold project located in Idaho.

So what?

There is growing pressure for Barrick to expand its portfolio of exploration and development projects. It appears that once Barrick has achieved its 2018 goal of [reducing debt](#) to US\$5 billion, it will start making investments to boost its portfolio of exploration and development assets. This is highly likely when it is considered that Barrick finished the first quarter 2018 with a significant cash balance of US\$2.4 billion.

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

2025/08/31

Date Created

2018/07/24

Author

mattdsmith

default watermark