



Is Barrick Gold Corp's (TSX:ABX) Hostile Bid for Goldcorp Inc. (TSX:G) a Farce?

Description

With gold prices hitting a 10-month high in February, the mega-merger between **Goldcorp Inc.** (TSX:G)(NYSE:GG) and **Newmont Mining** ([NYSE:NEM](#)) seemed to be progressing smoothly.

Peter Hug, the global trading director at Kitco Metals, highlighted how the “uncertainty of trade talks and fears that the U.S. equity market may be running out of steam is creating capital flows into a more protective allocation.” By combining the two companies, Goldcorp and Newmont would have newfound scale to lower costs quickly, taking advantage of potentially higher selling prices.

Then, things got weird.

First, competitor **Barrick Gold Corp** ([TSX:ABX](#))(NYSE:GOLD) mulled a bid for Newmont's assets. Then, it made a \$17.8 billion buyout offer. Goldcorp's CEO called the actions “desperate and bizarre.”

What exactly is going on?

The benefits of a merger aren't clear

In January, Goldcorp and Newmont announced that they were merging in a \$10 billion all-stock deal. Management touted that the combined company would have the largest gold reserves per share while offering the highest annual dividend among senior gold producers.

Notably, scale would provide the liquidity and diversification necessary to attract additional institutional investors. That could not alone boost its stock price, but also lower the cost of financing new projects.

Analysts were split on the promise of a combined entity. **Barclays** analyst Matthew Murphy praised the deal as having a “fairly compelling rationale.” **JPMorgan Chase & Co.** analyst John Bridges felt differently. “Long term, Goldcorp investors may be disappointed,” he said, given that “the company's long promised (and long delayed) recovery was supposed to begin this year.”

Some analysts, meanwhile, saw the deal as inevitable. “The industry clearly feels that it needs to do

something to become more relevant,” said **Royal Bank of Canada**’s James Bell. “One way to do that is just to become bigger.”

Something strange is happening here

Following the criticism, executives at both Newmont and Goldcorp went on a charm offensive, attempting to convince the public of the merger’s benefits, which caused them to get fairly aggressive in their predictions.

“This is going to be the largest reserve base that anyone has in the industry,” said Newmont CEO Gary Goldberg. “We’re going to have 18 operations and we’re going to do all the things that we’ve done over the past five to six years.”

One day after the Canadian Competition Bureau cleared the merger, *Bloomberg* reported that Barrick Gold “has looked into a bid for Newmont.” The next day, management at Barrick confirmed that it had “reviewed the possibility of a merger.” The next week, Barrick bought shares of Newmont in order to call a shareholder meeting.

On February 25, Barrick formally launched its hostile bid, offering 2.5694 Barrick shares per Newmont share. Flossbach von Storch, one of Barrick’s largest shareholders, quickly backed the deal.

Here’s what to make of it

It’s clear that Barrick is interested in Newmont’s assets. What’s not clear is whether it’s serious about a bid for the entire company.

In the past, both companies explored combining their complementary Nevada mines through a joint venture. It’s possible that a joint venture is all Barrick seeks, meaning that its recent bid would just be a stepping stone toward executing that goal. Perhaps all of the company’s words and actions are meant to force that future at a price Barrick is happy with.

Either way, Newmont is likely to see a favourable outcome. Both Barrick and Goldcorp have radically different futures depending on which suitor wins. If you invest in this mess, stick with the company with the most demand: Newmont.

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