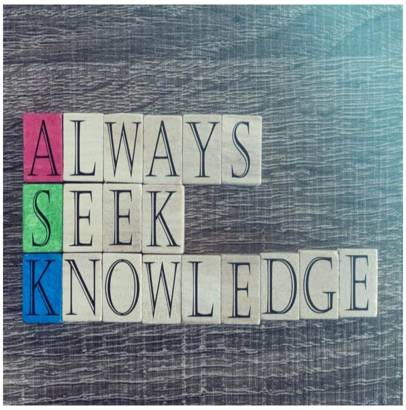

Where Will Barrick Gold (TSX:ABX) Stock Be in 10 Years?

Description

Predicting where a stock will be in 10 years is a difficult task. Doing so for a mining stock is even tougher.

Still, there are several important clues that can help us predict the future more clearly.

Take **Barrick Gold Corp** (TSX:ABX)(NYSE:GOLD) for example. Over the last decade, shares have lost more than half of their value.

After its multi-billion merger with Rangold and a new joint venture with **Newmont Goldcorp Corp**, however, management is betting that scale will help stage a massive turnaround.

Today, predicting the long-term future of Barrick Gold relies on the future of these mega-deals. Will they save the company as management predicts or will the larger company falter under its own weight?

Here's the pitch

Scale has long been pitched as a panacea for troubled mining results. Judging by the industry's historical failures, it's no wonder that investors are in constant need of a cure-all.

For decades, mining projects have been rife with pitfalls, from cost overruns and project delays to political tensions and resource model downgrades. Any one of those factors could instantly torpedo a mine's chance of success.

In many situations, a mining company has dedicated years of development and billions in funding only to see the project fail to reach first production.

Take **Guyana Goldfields** for example. After years of work, the stock plummeted by more than 50% after the company realized that its resource model—which it had been touting since the project's inception—was horribly inaccurate. The actual amount of gold the mine contained was only a fractionof what was predicted.

Achieving scale can remedy many of these issues by providing more diversification, better resources, and more reliable funding, at least that's the goal of Barrick Gold today.

Now with a market cap of $29 billion, Barrick Gold is one of the largest gold stocks on the market. Can it succeed by lowering costs and ramping production?

Early results look troubling

On May 8, Barrick Gold released its first quarter results—the first quarter that included its merger with Randgold. The results had a few major concerns.

Revenues increased 17% year-over-year to US$2.1 billion. While that looked encouraging, it was fueled by a 30% rise in gold production to 1.36 million ounces.

Selling prices were roughly the same (US$1,307 per ounce versus US$1,332 per ounce), meaning that the gap between production growth and revenue growth stemmed from higher costs.

Indeed, all-in sustaining costs rose to US$825 this quarter, up from US$804 per ounce the year before.

Management is touting its full-year production forecast of 5.1 million to 5.6 million ounces of gold, which would be a 13% increase from 2018 levels, but it's ignoring that this growth is coming at a steep cost.

All-in sustaining costs for 2019 are set to rise to roughly US$900 per ounce, up from $806 per ounce a year ago.

Growth at a cost

Barrick Gold appears to be making the same mistake that dozens of mining companies have made over the last few decades: focusing on growing the company versus increasing shareholder value.

Management will continue touting elusive synergies, but shareholders are likely to end up on the wrong side of the deal.

Expect Barrick Gold to ultimately grow in size over the next decade, but because rising costs are eating into rising sales, owning this stock doesn't mean you'll benefit.

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