



# Barrick Gold (ABX)



# BARRICK

Stock Rating	HOLD
My 12 – 18 month Price Target	\$14.25
TSX:ABX.TO Today	\$12.99
52-Week Range	\$12.54 - \$21.27
Gold Price / Silver Price Assumption	\$1,400oz / \$20oz
ROE / ROA	-3.46%/5.74%
Volume	2.18MM
Market Cap	\$14.95B
Dividend	\$0.16(1.21%)
Common Equity	\$16.7B
LT Debt	\$5.5B
Beta	0.62
EPS	-0.23

## Investment Thesis

My recommendation is a **HOLD**.

Barrick Gold is the world's largest gold mining company with operations in South America, North America, Africa and Australia. I am not confident that the next 12 to 18 months will see appreciation of the share price. Here's why:

- Barrick Gold is leveraged to the gold price which is highly volatile but increases when there is economic uncertainty in the market. The business cycle suggests continued growth;
- Foreign exchange risk has increased over the past year, making Barrick Gold's cash flows more difficult to forecast for '19, '20, '21, '22, '23;
- The company's debt is high for its industry. The company has reduced its debt load from \$12B at its peak to \$5B in the last quarterly report. Most of the outstanding debt "terms out" in the late 2020s or the 2030s which means the company will be able to pay the remaining as new production kicks online assuming all other factors are unchanged;
- Barrick Gold attempt to divest non-core assets to lower overall debt burdens may lead to less

- favourable terms relative to market expectations in the past, driving the share price downward;
- Copper production was down by 22% while Gold has remained in line with multiple Equity Analyst perspectives (JP Morgan, Scotiabank, Barclays);
- Decreased EBITA is expected due to higher estimates for costs at various open-pits;
- Political risk has caused continued difficulties, particularly with the Tanzanian government over ownership of the Acacia assets which that government owns 64% of. Disputes over environmental requirements of the Chilean portion of the Pascua Lama project are also a concern<sup>1</sup>;
- Greenfield projects are not historically how Barrick Gold delivers shareholder value and yet that is where most of their value will be based in the short run. Barrick Gold's signature approach has been through acquisition and divestiture with green tech installations off the back of those projects;
- Meanwhile, industry has historically sided with companies in this sector that focus on exploration, Barrick Gold has had a different strategy and shareholder pressure may cause ABX to conform which is not their unique strategic proposition.

## Barrick Gold's Strategy

After the divestiture of *Clairtone* to the government of Nova Scotia, Peter Munk turned his efforts to resource industry namely gold and other precious metal mining in the 1980s. Peter Munk suggested that Barrick Gold was underpriced in the 1990s and that analysts had incorrectly looked at competing firms based on geological explorations rather than the implications in financial statements of the subsequent failed explorations. The analysts, Munk contended, had it wrong in assuming all exploration was good exploration.

The original strategy of Barrick Gold was to grow through acquisition rather than engage in expensive exploration that could net a negative result. Exploration, Munk believed, was not the way forward. In 1983, Munk was able to acquire small gold mining firm aka "juniors" in North America. Through superior management, Munk was able to increase the productivity of those firms.

In 1994, Placer Dome was spending \$70MM on exploration which was a quarter of its cashflow and Barrick Gold was spending only \$5MM with a cashflow of \$317MM. Barrick Gold built up reserves of 18.4MM ounces by skipping on exploration.<sup>2</sup> That approach continues today even after Peter Munk's passing. The whole of the gold market was centred in South America at the time and political turmoil would mean difficulties in the near future. Not much has changed except ABX is now the largest gold mining company globally.

<sup>1</sup> Pascua Lama is split between the Argentinian and Chilean border. It is rich in gold, silver.

<sup>2</sup> Peter Munk: The Making of a Modern Tycoon, by Donald Rumball, 2010

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