News

# Can Barrick Gold Make a Comeback in 2018 After a Tepid 2017?

ZACKS Zacks Equity Research , Zacks • December 22, 2017

The year 2017 has not been a smooth ride for **Barrick Gold Corporation** ABX – the biggest producer of gold on the planet. The mining giant has seen its shares skid roughly 10% year to date, underperforming the Zacks Gold Mining industry's gain of around 6% in the same time frame.

The under-performance, in part, is due to the disputes surrounding Acacia Mining (the largest gold producer in Tanzania in which Barrick holds a 64% stake) that have sparked concerns among investors.


## Tanzania Troubles Weigh On Barrick

The government of Tanzania imposed a gold and copper concentrate export ban in March 2017 after accusing Acacia of understating its metal shipments. The government also hit Acacia with a massive $190 billion bill in July for allegedly unpaid taxes, interests and fines.

Export ban on concentrates hurt operations of Acacia in Tanzania. Barrick's share of production from Acacia fell roughly 7% year over year to 122,000 ounces in the third quarter. The company's overall gold production also went down around 10% in the quarter.

Barrick also narrowed its production outlook for 2017 to 5.3-5.5 million ounces from previous view of 5.3-5.6 million ounces. The export ban has some negative bearings on Barrick's 2017 production. The affected Acacia operations account for roughly 6% of Barrick's production guidance for 2017. In total, Acacia accounts for around 10% of Barrick's overall production.

The impact of Tanzania's concentrate export ban on Acacia and lower production also weighed on Barrick's bottom line in the third quarter. The company swung to a loss in the quarter, dragged down by a hefty tax provision of $172 million related to the proposed framework for Acacia. Its adjusted earnings also fell short of expectations. Barrick's shares cratered around 8% a day after the earnings release, reflecting the earnings miss, downbeat production guidance and investors' concerns surrounding Acacia.

Barrick and the government of Tanzania, in October, established a framework for a new partnership between Acacia Mining and the Tanzanian government. Per the framework, economic benefits generated by Acacia's operations will be shared with Tanzania on a 50/50 basis, moving forward. The Tanzanian government's share of benefits would be delivered in the form of royalties, taxes and a 16% free carry interest in Acacia's operations in Tanzania.

The government of Tanzania and Barrick also agreed to create a working group, which will focus on the resolution of outstanding tax claims relating to Acacia. Acacia will pay $300 million to the government of Tanzania to resolve outstanding tax claims, with payment terms to be settled by the working group.

All proposals are subject to review and approval by Acacia shareholders and the Independent Committee of Acacia's board of directors. Barrick aims to finalize the proposal in first-half 2018.

While the proposed framework is a progress towards ending the long-running dispute, it remains uncertain if an export ban that has hurt Acacia's Tanzanian operations will be lifted and whether Barrick will have to make further payments (on account of allegedly unpaid taxes) to the east African nation.

**Will 2018 Bring Better Tidings?**

While troubles associated with Acacia and decreasing production profile weighed on Barrick's stock this year, the company is expected to gain from its operational and cost-improvement initiatives, de-leveraging actions and efforts to maximize cash flows in 2018.

Barrick remains the world's most efficient gold miner. Its all-in sustaining cost (AISC) is among the lowest in the gold mining industry. While the company's AISC increased in the third quarter, it was still lower than its major peers. It also sees lower costs in the fourth quarter. Barrick remains committed to manage its costs (through reduction in cost of sustaining capital as well as developing and internal operational costs), which should aid to its results in 2018.

Barrick also remains actively focused on de-leveraging its balance sheet. The company cut its total debt by roughly $1 billion in the third quarter using cash flows and proceeds from the sale of a 50% interest in Veladero mine Argentina to Shandong Gold Mining Co. It reduced total debt by roughly $1.5 billion year to date, and exceeded the initial target to reduce debt by $1.45 billion for 2017.

Barrick looks to reduce its total debt by $2.9 billion to $5 billion by the end of 2018 using cash flows from operations. The company's aggressive debt reduction action should further lower its interest expenses in 2018. Improving balance sheet is also expected to allow the company to look for acquisition opportunities for growth next year.

Moreover, Barrick has a strong liquidity position (with cash and cash equivalents of around $2 billion at the end of the third quarter) and also generates healthy cash flows, which positions it well to take advantage of attractive development and exploration opportunities. It generated operating cash flows of nearly $1.5 billion during the first three quarters of 2017.

The company also generated free cash flow of $225 million in the third quarter, marking the tenth straight quarter of positive free cash flow. This testifies Barrick's focus on boosting free cash flow through capital discipline, improved operational efficiency and productivity, and stronger cost management.

Barrick also continues to make high return investments in its businesses leveraging cash flows and should benefit from major exploration programs. The company maintains a significant focus on Nevada for growth opportunities. A significant portion of its exploration budget has been allocated to the Americas.

Positive outlook for gold will also act as a tailwind. Gold has managed to rack up a roughly 9% gain so far this year, despite the prospects of the U.S. Federal Reserve hiking interest rates looming large and favorable equity markets.

Particularly, the yellow metal's prices were buoyed by its safe haven appeal this year owing to geopolitical tensions. Further, frequent terrorist attacks in UK and escalating tensions between the United States and North Korea fueled the price rise this year. In fact, the precious metal broke the threshold limit of $1,300 an ounce this year triggered by the United States-North Korea imbroglio.

Spot gold headed for the biggest gain in three weeks after the Fed hiked interest rates by a quarter percentage point at its December policy meeting. This was because the market had already factored in the possibility of a rate hike given the upbeat economic data. Gold prices trended upward interpreting the Fed's statement as dovish considering that it is planning only three rate hikes in 2018 and not four.

Per the World Gold Council, there are plenty of reasons to be optimistic about gold's performance, entering 2018. A number of new mines are projected to enter production in the fourth quarter of 2017, which might support mine production till 2018.

On the demand side, major markets, India and China will continue to be growth drivers. Further, the United States continues to be a strong market driven by economic growth, improving employment levels and growth in consumer confidence. Demand from central banks is also expected to remain strong. As such, a favorable outlook for gold augurs well for Barrick.

Barrick is a Zacks Rank #3 (Hold) stock.

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