Barrick Gold Corp

Barrick Gold's restructuring comes at a cost

Canadian miner set to lose top spot to US rival as output and share price falls

Barrick Gold's share price has fallen 30 per cent since John Thornton took the helm at the Canadian miner © Bloomberg

Henry Sanderson in London 6 HOURS AGO

As John Thornton approaches his fourth anniversary as executive chairman of Barrick Gold, he has transformed the once deal-hungry company into a leaner, more efficient miner.

But his restructuring has come at a cost: Barrick is set to lose its position as the world's largest gold miner to older US rival Newmont Mining as its output and market value falls.

A former Goldman Sachs president and China expert, Mr Thornton has cut Barrick's debt, sold down assets and embraced technology from big data to autonomous vehicles.

But the miner's share price has fallen 30 per cent since Mr Thornton took the helm at the Canadian company, compared with a 55 per cent rise in Colorado-based Newmont's.

"The restructuring has run its course, they've got their debt down to manageable levels, reworked the portfolio," says Joe Foster, a portfolio manager at VanEck, the second-largest shareholder of Barrick with a 4 per cent stake.

"Now investors are saying what's next? What's going to drive the stock from here? That's the big question mark."

Barrick Gold loses its shine

Market value ($bn)

Source: Thomson Reuters Datastream

Barrick claims its approach has already delivered results — with more than $2bn in free cash flow generated in the past two years, a corporate record. Its also cut its total debt from $8bn in 2016 to $6.4bn.

The company has four projects in its pipeline but these will only add about 1m ounces to its production starting in 2021. As a result, it forecasts its gold output will decline from more than 5.32m ounces last year to between 4.6m to 4.2m ounces between 2019 and 2022.

Some analysts expect an even steeper drop, with BMO Capital Markets forecasting Barrick's production to fall below 4m ounces after 2021.

That is in stark contrast to Newmont, which forecasts production between 4.6m to 5.1m ounces through to 2022.

"You want companies to create value, and it's getting more difficult for them," Mr Foster adds. "These development projects are just keeping them in place, they're not advancing."

Mr Thornton has made it clear that large acquisitions are off the table — a far cry from the $10.4bn hostile bid for Vancouver-based Placer Dome in 2006 that turned Barrick into the largest gold producer in the world under its founder, Hungarian émigré Peter Munk.

"We simply will not yield to pressure to, 'just find something' in order to 'grow'," Mr Thornton told shareholders.

"History shows that mining companies overpay for mediocre assets and invest in projects with low returns, when times are good," he added.

Barrick has its own experience of this, with its $7.3bn acquisition of copper miner Equinox Minerals in 2011, which left the group heavily in debt. The deal was badly timed: two years later gold prices collapsed after a 12-year bull run.

But other gold miners are starting to make forays into buying assets again. Last year Egyptian billionaire Naguib Sawiris set up a company to invest in emerging gold projects around the world led by Andrew Wray, a former chief financial officer of Acacia Mining.

Barrick says it has also not written off doing more deals, but says they must add clear value for shareholders. The company examined a number of opportunities last year, Mr Thornton said, but passed on all of them.

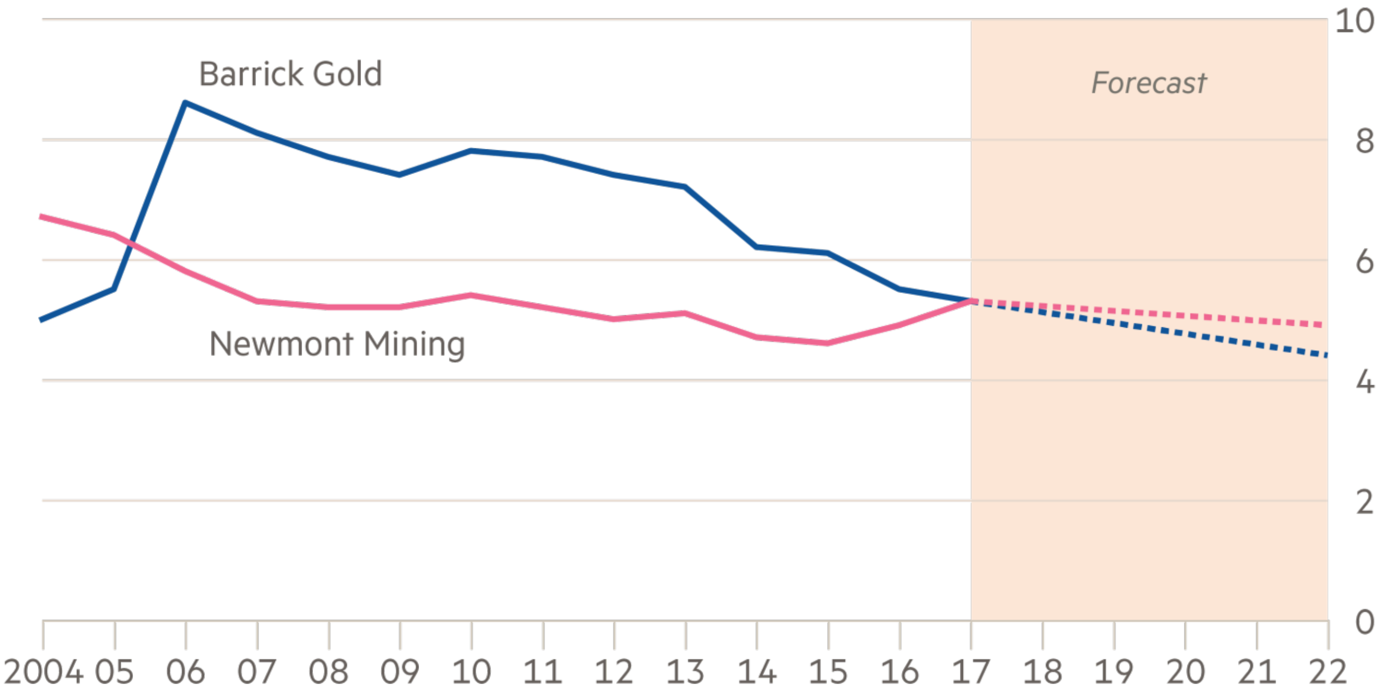
Robert Gill, a portfolio manager at Lincluden Investment Management, says shareholders should be patient.

"You've got to break a few eggs to make an omelette," Mr Gill says. "You're certainly not going to grow as fast, production will be declining, but the company's profitability will increase, the balance sheet will increase, the risk of investing in Barrick will decrease.

"The overall quality of the company will be better but it will be a smaller company."

Gold miners face falling output

Production (m ounces)



Source: companies

That is reflected in Barrick's new motto for executives: "Grow our free cash flow per share over the long term."

To incentivise this, Mr Thornton wants to make all employees shareholders by granting stocks they have to hold for the life of their employment. So far, employees own more than 1.5m shares in the company.

He is also betting on two big themes: technology and China.

Barrick has focused on making its operations more digital, centred on its CodeMine digital hub in Nevada, which is overseen by its first chief innovation officer Michelle Ash.

That has seen employees launch hackathons and attend innovation conferences in Silicon Valley. This year Barrick plans to launch the Barrick Data Fabric, a big data platform.

Barrick has also tested autonomous trucks at its Cortez mine in Nevada, which can be controlled by operators on the surface.

Mr Thornton, who is also professor at Tsinghua University in Beijing, has also deepened the company's connections to China, which is the largest consumer of gold. Last June Barrick sold 50 per cent of its Veladero mine in Argentina to Shandong Gold Mining for $960m.

In a world of growing resource nationalism that relationship could help the company negotiate with governments. Barrick is trying to end a dispute in Tanzania that has seen Acacia Mining, in which it has a 64 per cent stake, banned from exporting since last March.

London-listed Acacia said last month it had held talks with Chinese gold companies about selling a stake in some of its mines in the east African country.

Further joint ventures are likely rather than outright acquisitions.

“Under Mr Thornton and the current crew they are going to display some prudence,” Mr Gill says. “They will take their time and there will be a certain hurdle rate. They’re OK with becoming number two.”