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Barrick posts loss, but makes headway on debt

Ian McGugan - Mining Reporter

Barrick Gold Corp. swung to a loss in the third quarter, but reported strong progress in reducing its mountain of debt and paring production costs as it grapples with a challenging market for precious metals.

The world's largest gold producer said it lost $264-million (U.S.) or 23 cents a share in the quarter, largely as a result of writing down the carrying value of Zaldivar, its South American copper mine, by $452-million. Revenue was $2.32-billion.

The paper loss was outweighed by an impressive performance in reducing both costs and debt. Earnings excluding one-time items were 11 cents a share, beating the seven cents a share that analysts had expected.

"Overall, it was a very good quarter," said ***Sid Subramani***, an analyst at ***Veritas***, an independent investment researcher in Toronto.

Barrick said on Wednesday that it has cut its total debt by 15 per cent so far this year and is on track to meet its aggressive target of chopping $3-billion from its $13.1-billion debt load by the end of 2015.

Much of the debt reduction has come from sales of non-core assets. In July, Barrick agreed to sell half of Zaldivar to Antofagasta PLC of Chile for $1-billion. It also unloaded mines in Australia and Papua New Guinea and struck a deal to sell some of the future gold and silver production from its Pueblo Viejo mine in the Dominican Republic in exchange for $610-million now.

Barrick said its all-in sustaining costs, a wide-ranging measure of the expenses required to produce gold, will fall to $830 to $870 an ounce for 2015. All-in sustaining costs for the third quarter were very low at $771 an ounce while cash costs, a narrower measure of production expenses, were $570 an ounce – a "pretty phenomenal" figure for the entire portfolio, according to ***Mr. Subramani***.

The company is taking an axe to costs and said it was on track to improve cash flow by $2-billion by the end of next year. It has shed jobs, reduced capital spending, slashed its dividend and shut down an office in Salt Lake City.

John Thornton, its chairman, has made it a priority to cut management layers as he attempts to return the company to the lean, nimble organization it was 20 years ago. Head office staff now number about 150, less than half the 370 employed in 2013, according to a recent presentation.

However, despite the cost-cutting crusade, both DBRS and Moody's Investors Services downgraded Barrick's debt in August to one notch above junk status, based on concerns about the company's ability to handle its massive debt load if gold prices were to weaken further.

Much of the company's debt was incurred through an ill-timed attempt to diversify into copper production at the height of the commodity boom in 2011, along with cost overruns at a major gold project in the Andes.

The borrowing has weighed on Barrick as the market for the company's primary product has weakened. Gold is now trading at around $1,155 an ounce, down 40 per cent from its peak in 2011.

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