Barrick Gold Corporation

NYSE: ABX

Analysts: Michelle Oliver, Kari Bellinger, & Brady Rothrock

Student Investment Fund Portfolio

<table>
<thead>
<tr>
<th>Recommendation: BUY</th>
<th>Market Cap: $50.98 billion</th>
<th>Current Price: $47.00</th>
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<tbody>
<tr>
<td>Sector: Mining</td>
<td>Dividend Yield: 0.9%</td>
<td>12-month target price: $53</td>
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<td>Sub-Sector: Gold</td>
<td>P/E Ratio: 15.81</td>
<td>Beta: 0.60</td>
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### Highlights

- **ABX** is the leading gold mining company in the world in terms of production, reserves and market capitalization.
- Gold has been proven to be a safe haven investment and a store of value to safeguard against the erosion in the value of paper assets.
- **ABX** has renewed and increased its focus on Corporate Social Responsibility ("CSR") initiatives, and was added to the NASDAQ Global Sustainability Index.
- **ABX** announced that it was the first Canadian mining company to join the "Voluntary Principles on Security and Human Rights."

### Business Summary

Barrick is engaged in the production and sale of gold, as well as related activities such as exploration and mine development. They also produce significant amounts of copper, principally from the Zaldívar mine, as well as oil and gas through its Barrick Energy division in Canada. Barrick also holds other interests, including but not limited to projects such as: a nickel development project located in Africa and a copper-gold project in Pakistan. Barrick also holds a 73.9% equity interest in **ABG**, which includes Barrick's previously held African gold mines and exploration properties, and Barrick as a whole.

![Barrick Gold Corporation Common](image)

### Investment Thesis

The Federal Reserve's low interest rate, easy monetary policy is likely to continue for a substantial period of time. "Monetizing" the Federal debt in this way has led to a steady devaluation of the U.S. dollar, and an accompanying bull market in commodities, including gold. These factors have contributed to **ABX** growing their revenues by 365% over the past 5 years. Using conservative forecasting assumptions for **ABX** – including total revenue growth over the next 5 years of only 46% – our analysis indicates that **ABX** remains attractively valued at its current price of $47/share. We forecast per share intrinsic values for the stock from 2011-2015 of $53.28-$61.35.
Macroeconomic Thesis

A Golden Goose:

With the soaring price of commodities and the devaluation of the US dollar through quantitative easing, gold has been the asset-of-choice for many investors to protect their wealth. Recently gold has surpassed prices of $1,400-1,500 per ounce. Barrick currently holds the largest amount of gold reserves in the world, and expects to produce more gold this year than last.

ABX expects production to grow to 9 million ounces over the next 5 years from current 7.8 million in 2010.

ABX has been able to produce at lower costs per ounce thanks to new low cost Pueblo and Pascua mines.

ABX has a strong focus on maximizing the value of its current mines.

ABX gold production in North America is expected to increase due to an increase in tons processed and higher average head grades at Cortez Hills.

The recommencement of production at Golden Sunlight after a two-year mine development period is expected to increase gold production in North America.

ABX is currently undergoing a review of additional permitting requirements in Cerro Casale, Chile, which is the world’s largest undeveloped gold and copper deposit.
Barrick Gold Corporation

NYSE: ABX

Business Segments

ABX has 6 main Business Segments

88.8% of ABX revenue is from gold, 10.1% is from copper, and 1.1% is from energy:


Gold - South America - $2,523M (23.1%) – Engages in the production and sale of gold in South America.

Gold - Australia Pacific - $2,434M (22.3%) – Engages in the production and sale of gold in Australia.

Gold - African Barrick Gold (ABG) - $919M (8.4%) – Engages in the production and sale of gold, as well as related activities, such as exploration and mine development in Tanzania.

Copper - South America - $1,102M (10.1%) – Produces copper in South America.

Barrick Energy – $123M (1.1%) – Engages in the exploration and production of oil.

International Presence:

High volatility has characterized the global business environment for several years, affecting economies of all sizes. Barrick’s diversified international presence has been a valuable asset in mitigating some of the economical effects of these global disasters. ABX has a focus in 8 Geographic Regions:

United States - $3,520M (32.3%)
Canada - $426M (3.9%)
Peru - $1,200M (11%)
Chile - $1,102M (10.1%)
Argentina - $1,323M (12.1%)
Australia – $1,823M (16.7%)
Papua New Guinea - $611M (5.6%)
Tanzania – $919M (8.4%)
Industry Presence

For the gold mining industry, Barrick is the leader in revenue, accounting for 35% of all gold mining revenue for stock listed on the New York Stock Exchange.

Barrick’s largest competitor is Newmont Mining Corp, with 31% of the overall revenue.

Barrick’s position of 35% is equal to that of the other five gold mining companies shown in this chart (excluding Newmont), indicative of their dominant market position in the gold mining industry.

For the gold mining industry, Barrick is also the leader in Market Cap, accounting for 33% of the Market Cap of all gold miners listed on the New York Stock Exchange.

In terms of Market Cap, the largest competitor for Barrick is Goldcorp inc., who holds a position of 26%.

Barrick's consistent industry leadership – in terms of both Revenue and Market Cap – provides them with significant competitive advantages.
Key Forecasting and Modeling Assumptions

*Income Statement:*

*Revenue Growth:* The 5-year historical average for revenue growth is 18%. Our model conservatively forecasts year-by-year revenue growth, starting at a forecasted rate of 13% in 2011 and tapering down to our long term growth rate of 3% in 2015.

*COGS:* ABX has seen a consistent decline in COGS during the past 5 years, resulting in a 5-year historical average of 48.7% of sales. In our model, we lower 2011 forecast of COGS to 45%, and consistently, but slowly, taper it back up to reach 47% for 2015.
Dividend: Historically, ABX has grown their dividends in the mid to low 30% range, with the exception of the recession. However, we chose to use the average of 18.9% for our forecasted dividend per share growth.

Balance Sheet

Inventory: Over the historical years, ABX has gradually reduced their inventory. We forecast this trend to continue over the next few years, but at a slightly slower rate. Therefore, we have a forecast of 80% of sales in 2011, tapered down to 76% in 2015.

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<td>127%</td>
<td>108%</td>
<td>101%</td>
<td>78%</td>
<td>80%</td>
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<td>76%</td>
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**Net PP&E:** Historically, ABX has been able to decrease their Net PP&E as a percent of sales. Despite this trend, we hold our forecast at a constant 203% of sales. With this modest forecast, ABX will create even more value than our model suggests if they in fact continue to decrease Net PP&E over the forecast horizon.

![Net PP&E % Sales Chart]

**Accounts Payable:** ABX has historically decreased their accounts payable over the past few years. Therefore, we forecasted the next five years to decrease as well, but at a modest rate of 43% of sales, down to 40%.

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<td>62%</td>
<td>54%</td>
<td>53%</td>
<td>45%</td>
<td>43%</td>
<td>42%</td>
<td>40%</td>
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**Profitability Ratios**

**Gross Profit Margin:** With a historical gross profit margin of 60% compared to the industry’s average of 50%, it is reasonable to suggest that ABX is significantly more effective than the industry at sourcing raw materials. Even though our forecasted gross profit margin is set at a constant decline, we still show that ABX will remain above the industry average of 50%.

**ROA & ROE:** In 2010 ABX earned a strong ROA of 9.5% and ROE of 17.3%, well above the industry averages of 4.5% and 6.9% respectively. Our conservative forecasting assumptions result in forecasted ROA and ROE being below 2010 levels, serving as a margin of safety in the forecasts. ROA is expected to slightly decrease while ROE holds stable due to a modest increase in the equity multiplier (due to a slight increase in leverage over the 5-year forecast).
**EPS & DPS:** Like many firms in the materials sector, ABX’s earnings are volatile, but generally on an increasing trend. Even with modest assumptions, our EPS remains positive in our forecast. ABX has grown their dividends by 100% over the past 5 years and we forecast that they will continue growing dividend at a rate of 18.9% per year.

**Valuation Metrics**

**Price to Earnings Ratio:**
Barrick’s 2010 P/E of 16.0 was well below the industry average of 24.2 and below their 5 year historical average of 19.68. With modest forecasting assumptions ABX has a forecasted P/E ratio of 33.3, within the range of P/E ratios from 2007-2008.
**NOPAT:** ABX has grown NOPAT at an average of 33.8% per year, which is indicative of significant value creation potential. We forecast this value to continue increasing modestly over the next 5 years.

**Free Cash Flow:** ABX has produced positive FCFs over the past 2 years and is forecasted to grow FCFs, but at values lower than 2010. Using a stable percent of sales NPP&E in the forecasts while expanding revenues requires more cash flows to be spent on plant and equipment each year.

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<tr>
<td>FCF</td>
<td>N/A</td>
<td>($1,520)</td>
<td>($761)</td>
<td>$1,975</td>
<td>$3,609</td>
<td>($329)</td>
<td>$500</td>
<td>$1,083</td>
<td>$1,958</td>
<td>$2,826</td>
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**EVA & MVA:** Due to conservative modeling assumptions, EVA shows a slight decrease in 2011 and then resumes a stable up-trend. MVA is irregular due to the market “down-draft”. Our forecasted MVA shows that ABX is likely to continue creating value.
**Per Share Target Stock Price:**

With the exception of the recession year 2008, ABX has had an increasing fiscal year-end stock price, ranging from $30.70 in 2006 up to 53.18 in 2010. Even with our conservative forecasting assumptions, our model suggests that this trend will continue, ranging from 53.28 in 2011 up to $61.35 in 2015.

![Fiscal Yr-End Stock Price](image)

- With ABX being the leading gold mining company in the world, the value of their stock is expected to increase, due to the current devaluation of the US dollar. This is supported by the fact that gold has been proven to be a store of value to safeguard against the erosion in the value of paper assets.
- Also, since ABX has recently increased their focus on CSR initiatives, adding them to the NASDAQ Global Sustainability Index, and is the first Canadian mining company to join the “Voluntary Principles on Security and Human Rights”, they will be a more desirable company to invest in. As a result, we predict an increase in their future stock price.
**ROIC & WACC Assumptions:**
In 2010 ABX produced their highest ROIC in 5 years (12.4%). The WACC was calculated to be 7.18%, based on a modest increase in the beta from .49 to .60. This creates a Value Spread of 5.22% for 2010. With conservative assumptions the Value Spread is forecasted to decrease but stay well above 3%.

**Risks to Investment**
With the coming to an end of Quantitative Easing 2, the dollar may begin to regain value. If this occurs more investors will be willing to hold cash rather than securely store the value of their wealth in gold. This could cause the value of gold to decrease and adversely affect the revenues of ABX. Additionally, if the cost of commodities such as oil and other metals continue to rise, ABX will be forced to bear more costs to produce their goods, not all of which can be passed on to customers and consumers.

**Other Recommendations**

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<td>S&amp;P 500</td>
<td>BUY</td>
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<td>MSN</td>
<td>BUY</td>
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<tr>
<td>Yahoo</td>
<td>BUY</td>
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**Applied Portfolio Management**
at the Washburn University School of Business in Topeka, Kansas
Recommendation Summary

- ABX is the leading gold mining company in the world in terms of production, reserves and market capitalization.
- ABX is currently undergoing a review of additional permitting requirements in Cerro Casale, Chile, which is the world’s largest undeveloped gold and copper deposit.
- Barrick’s diversified international presence has been a valuable asset in mitigating some of the economical effects of the recent global disasters.
- For the gold mining industry, Barrick is the leader in revenue, accounting for 35% of all gold mining revenue for stock listed on the New York Stock Exchange.
- ABX has grown their dividends by 100% over the past 5 years and we forecast that they will continue growing dividend at a rate of 18.9% per year.
- With modest forecasting assumptions ABX has a forecasted P/E ratio of 33.3
- ABX has grown NOPAT at an average of 33.8% per year, which is indicative of significant value creation potential.

With a 2011 per share intrinsic value of $53.28 and the current undervalued market price of $47.67, and ABX’s ability to sustain a strong Value Spread between their ROIC and WACC, ABX is an attractive buy and hold stock for the Student Investment Fund.