

Smith, Larry (Toronto)

From: Haughton, David [David.Haughton@bmo.com]
Sent: Friday, August 02, 2013 8:23 AM
To: Smith, Larry (Toronto)
Subject: RE: Question regarding Barrick Gold: Q2/13 Results Beat; Addressing Market Concerns; Upgrading to Market Perform (Comment)
Attachments: Q313 Equity Strategy.pdf

Hi Larry,

Thank you for the email.

NPV is the discounted cash flow (DCF) valuation of each asset adjusted for corporate costs and debt.

NPV and NAV are generally interchangeable.

I prefer NPV as some may confuse Net Asset Value with a balance sheet measure rather than a DCF.

Fig 19 of the attached report shows the IRR of the gold sector for the past decade.

The IRR is calculated as the discount rate required for the $P/NPV = 1$ for the entire sector using prevailing spot.

The IRR ranges from 0 to 12% depending upon the investor outlook and other measures that are too long to explain here.

BMO consistently uses spot at 10% for the valuation metric.

Other analysts use differentiates for their own reason while some use WACC.

The discount rate discussion is also a long and involved one...

Regards, David H.

From: Smith, Larry (Toronto) [mailto:lsmith@barrick.com]
Sent: August 1, 2013 7:56 PM
To: Haughton, David
Subject: Question regarding Barrick Gold: Q2/13 Results Beat; Addressing Market Concerns; Upgrading to Market Perform (Comment)

Hello David,

I have read your Barrick analysis with interest.

While I am an employee of Barrick Gold, the questions below come from my role as a teacher of Mineral Economics.

I note with interest that your analysis of Barrick refers to "5.0x NPV (10% discount rate; spot prices)".

Both the 5x and the 10% are new to me.

I am more familiar with 1-2x NAV (more recently ~1x) and 0% or 5% discounting.

Would you mind expanding on your use of 5x and 10%?

What is the relationship between "NPV" as you have used it here and "NAV"?

What are your thoughts on 1-2x NAV and 5%?

Such criteria are always a matter of interest and debate in the discussion of discount rates and valuations.
Your insights would be appreciated.

Many thanks,
Larry Smith

L. D. Smith
LDS@sympatico.ca
416-804-5465

This e-mail has been sent from a business e-mail account.

Please use the e-mail address above for your reply and your address book.

From: David Haughton [mailto:david.haughton@bmo.com]
Sent: Thursday, August 01, 2013 6:56 PM
To: l-d-smith@sympatico.ca
Subject: Barrick Gold: Q2/13 Results Beat; Addressing Market Concerns; Upgrading to Market Perform (Comment)

Event: Barrick reported Q2/13 adjusted EPS of US\$0.66, above BMO Research at US\$0.50 and consensus of US\$0.58. In addition to the US\$0.5B loss on the sale of Barrick Energy, ABX reported a total of US\$8.7B in after-tax impairments, including: US\$5.1B for Pascua and US\$2.3B in goodwill. Barrick cut its quarterly dividend from US\$0.20 to US\$0.05/sh.

Impact: Positive. Barrick has undertaken steps to address the key market concerns of (1) cash flow strains on the indebted balance sheet, (2) mine plan revisions in light of lower metal prices, (3) worrying impairment charges, and (4) progress on Pascua-Lama. Barrick has reduced 2013 capital and costs by US\$2B (with some deferred in to 2014 and 2015) and saved US\$600M/year by trimming the dividend. The company maintained 2013 production guidance, but lowered cost expectations for gold and copper with the strong Q2 supporting the results. All mines are being assessed at US\$1,100/oz with 12 higher-cost mines subjected to optimization, suspension, closure or divestiture. Impairment tests were run at US\$1,300/oz (previously US\$1,700/oz), which reduces the risk more ahead. BMO Research estimates the Pascua-Lama IRR at 12% using spot (ignoring sunk costs), which is less than optimal and with significant expenditure and risks ahead, but could become a key asset for Barrick if executed to plan.

Forecasts: The 2013 and 2014 EPS forecasts were increased to US\$2.19 (up ~12%) and US\$1.15 (up ~6%), respectively, on improved cost and production guidance.

Valuation: Barrick trades at 5.0x NPV (10% discount rate; spot prices), at a significant premium to the senior gold producer average of 2.4x.

Recommendation: BMO Research is upgrading Barrick to Market Perform. Barrick appears to be addressing the key concerns that prompted the Underperform rating, but the company must now deliver on the plans and ease balance sheet pressure.

For full report including research disclosures: <http://research-ca.bmocapitalmarkets.com/documents/fcd790fe-5d1e-4df4-a30f-28ee4d914621.pdf>

To unsubscribe from Email Alerts:
<mailto:BMOCMResearch.EmailBlast@bmo.com?subject=unsubscribe&body=ABXGL-BMO>



Barrick Gold

(ABX-NYSE; ABX-TSX)

Stock Rating: **Market Perform↑**
Industry Rating: **Market Perform**

August 1, 2013
Research Comment
Toronto, Ontario

David Haughton
BMO Nesbitt Burns Inc.
(416) 359-4052
david.haughton@bmo.com
Assoc: Salim Ben Mansour

Q2/13 Results Beat; Addressing Market Concerns; Upgrading to Market Perform

Event

Barrick reported Q2/13 adjusted EPS of US\$0.66, above BMO Research at US\$0.50 and consensus of US\$0.58. In addition to the US\$0.5B loss on the sale of Barrick Energy, ABX reported a total of US\$8.7B in after-tax impairments, including: US\$5.1B for Pascua and US\$2.3B in goodwill. Barrick cut its quarterly dividend from US\$0.20 to US\$0.05/sh.

Impact

Positive. Barrick has undertaken steps to address the key market concerns of (1) cash flow strains on the indebted balance sheet, (2) mine plan revisions in light of lower metal prices, (3) worrying impairment charges, and (4) progress on Pascua-Lama. Barrick has reduced 2013 capital and costs by US\$2B (with some deferred in to 2014 and 2015) and saved US\$600M/year by trimming the dividend. The company maintained 2013 production guidance, but lowered cost expectations for gold and copper with the strong Q2 supporting the results. All mines are being assessed at US\$1,100/oz with 12 higher-cost mines subjected to optimization, suspension, closure or divestiture. Impairment tests were run at US\$1,300/oz (previously US\$1,700/oz), which reduces the risk more ahead. BMO Research estimates the Pascua-Lama IRR at 12% using spot (ignoring sunk costs), which is less than optimal and with significant expenditure and risks ahead, but could become a key asset for Barrick if executed to plan.

Forecasts

The 2013 and 2014 EPS forecasts were increased to US\$2.19 (up ~12%) and US\$1.15 (up ~6%), respectively, on improved cost and production guidance.

Valuation

Barrick trades at 5.0x NPV (10% discount rate; spot prices), at a significant premium to the senior gold producer average of 2.4x.

Recommendation

BMO Research is upgrading Barrick to Market Perform. Barrick appears to be addressing the key concerns that prompted the Underperform rating, but the company must now deliver on the plans and ease balance sheet pressure.



[CLICK HERE](#) for full report including research disclosures.



[CLICK HERE](#) to access our research website.



[CLICK HERE](#) to apply for a web account.



[Click here](#) to unsubscribe from Email Alerts.

1308011808-18499

This e-mail and any attachments may contain confidential and privileged information. If you are not the intended recipient, please notify the sender immediately by return e-mail, delete this e-mail and destroy any copies. Any dissemination or use of this information by a person other than the intended recipient is unauthorized and may be illegal. Unless otherwise stated, opinions expressed in this e-mail are those of the author and are not endorsed by the author's employer.

Le présent message, ainsi que tout fichier qui y est joint, est envoyé à l'intention exclusive de son ou de ses destinataires; il est de nature confidentielle et peut constituer une information privilégiée. Nous avertissons toute personne autre que le destinataire prévu que tout examen, réacheminement, impression, copie, distribution ou autre utilisation de ce message et de tout fichier qui y est joint est strictement interdit. Si vous n'êtes pas le destinataire prévu, veuillez en aviser immédiatement l'expéditeur par retour de courriel et supprimer ce message et tout document joint de votre système. Sauf indication contraire, les opinions exprimées dans le présent message sont celles de l'auteur et ne sont pas avalisées par l'employeur de l'auteur.