



Rating  
**Buy**

North America  
Canada

Industrials  
Metals & Mining

Company  
**Barrick**

Reuters ABX.N    Bloomberg ABX US    Exchange NYS    Ticker ABX

Date  
25 July 2018

## Results

Price at 25 Jul 2018 (USD)	11.82
Price target	15.00
52-week range	18.22 - 11.42

## 2Q18 results: Below expectations, all about 2H improvements

**2Q18 adjusted EPS of 7c, below DBe of 10c and Factset consensus of 12c**

Barrick's result was largely pre-released but adjusted EPS of 7c was still lower than expected vs both DB and the street mainly related to higher SG&A and R&D expenses; DB was expecting 10c while street consensus was 12c. On July 11, Barrick pre-released gold production of 1,067 koz and sales at 1,037 koz. Copper production was 83 mlbs, while sales were lower at 74 mlbs. The Barrick story continues to be 2H18 weighted with production of ~2.1 moz in 1H18 but guidance of 4.5-5.0 moz for FY18 maintained. Throughput improvements are expected at Barrick Nevada towards 4Q18, as maintenance shutdowns are now largely complete; higher grades are also anticipated in Pueblo Viejo towards the end of the year. Barrick recently announced lowered copper production guidance to 345-410 mlbs (compared to 385-450 mlbs previously, DBe 379 mlbs). Net Debt is now \$4.3bn, 11% above our expectations and 7% higher than in 1Q18 (following negative FCF of \$172m for the quarter, compared to DBe positive FCF expectations of \$136m). Further debt reduction remains a priority for Barrick. We forecast a 2019E FCF yield of 5%. A 3c dividend was announced (to be paid on September 17), in-line with previous quarters and expectations. We continue to see Barrick as a value opportunity with an improving balance sheet, production opportunities medium term (particularly with Barrick's potential project partner Shandong Gold), and exploration potential.

Conference call on July 26, 2018, at 8am ET (Dial-in: +1 (800) 319-4610).

### Positives

- 2018 gold production reaffirmed at 4.5-5.0 moz (DBe 4.6moz) and \$765-815/oz All-In Sustaining Costs (AISC) (DBe \$776/oz) and \$540-575/oz cash costs (DBe \$558/oz).
- At Fourmile: a new high grade gold discovery has been made as exploration continue, which could support medium term nearby projects such as Goldrush by increasing processing options.
- Turquoise Ridge (third shaft construction), Goldrush and Cortez Deep South organic projects continue to be on track for 2021.
- Further development of the relationship with Shandong Gold: signed agreement to enhance the strategic cooperation between the companies: Shandong is currently evaluating the Lama project in Argentina and assessing potential synergies with Veladero (ABX/Shandong 50/50 JV). This can be seen as a positive following Barrick's announcement last

### Valuation & Risks

Chris Terry

Research Analyst  
+1-212-250-5434

Corinne Blanchard

Research Associate  
+1-904-645-2360

### Price/price relative



Performance (%)	1m	3m	12m
Absolute	-9.0	-11.4	-23.1
S & P 500	2.4	7.1	14.2

Source: Deutsche Bank

### Key indicators (FY1)

ROE (%)	7.5
ROA (%)	2.8
Net debt/equity (x)	26.6
Book value/share (USD)	8.52
Price/book (x)	1.4
Net interest cover (x)	4.0
EBIT margin (%)	25.9

Source: Deutsche Bank

### Stock & option liquidity data

Market Cap (USDm)	13,793.9
Shares outstanding (m)	1,167.0
Free float (%)	100
Volume (25 Jul 2018)	3,595,560
Option volume (und. shrs., 1M avg.)	2,873,118

Source: Deutsche Bank



quarter of no further work on a pre-feasibility study at Pascua-Lama, as the project doesn't meet Barrick's investment criteria.

- Porgera is now running at full capacity (earlier than initially expected in 4Q18) after a power plant issue from an earthquake (in February 2018).

### Negatives

- 2018 copper production guidance reduced to 345-410mlbs (compared to 385-450mlbs, DBe 379mlbs), cash costs between \$1.80-2.00/lbs (DBe \$1.86/lbs) and AISC of \$2.55-2.85/lbs (DBe \$2.60/lbs). Copper guidance has been reduced due to Lumwana operational challenges during 1H18, although this is expected to improve for the second half of the year, with higher grades forecast.
- Implied mid-range 2H18 guidance of roughly equal to production of ~2.6 moz (compared to 1H18 production of ~2.1 moz) with further weight towards the end of the year as Barrick is estimating 3Q18 production at ~1.2 moz, implying last quarter production at ~1.4 moz and a large pick up needed.
- Net Debt at \$4.3bn, 7% higher than 1Q18.
- Effective tax rate guidance increased to 44-46% (compared to initial guidance of 41-43%); DBe assumed 41%.

Figure 1: Barrick 2Q18 operational summary

(\$m)	2Q18A	2Q18E	vs est.	1Q18A	QoQ chg	2Q17A	YoY chg
Revenue	1,712	1,667	3%	1,790	-4%	2,160	-21%
<b>EBITDA</b>	<b>674</b>	<b>714</b>	<b>-6%</b>	<b>842</b>	<b>-20%</b>	<b>1,096</b>	<b>-39%</b>
EBITDA margin	39.4%	42.8%	-347bps	47.0%	-767bps	51.6%	-1220bps
<b>Adj. EBITDA</b>	<b>657</b>	<b>714</b>	<b>-8%</b>	<b>796</b>	<b>-17%</b>	<b>1,114</b>	<b>-41%</b>
Adj. EBITDA margin	38.4%	42.8%	-446bps	44.5%	-609bps	51.6%	-1320bps
SG&A	93	60	55%	48	94%	45	107%
Operating profit	346	360	-4%	517	-33%	757	-54%
Net interest gain (exp)	(136)	(121)	12%	(133)	2%	(173)	-21%
Other gain (loss)	(180)	0	nm	9	nm	813	nm
Pre-tax profit	40	251	-84.1%	393	-90%	1,411	-97%
Taxes	116	103	13%	201	-42%	274	-58%
Net income	(94)	116	-181%	158	-159%	1,084	-109%
Basic EPS (\$)	(0.08)	0.10	-181%	0.14	-159%	0.93	-109%
Adj. net income	81	116	-30%	170	-52%	261	-69%
Shares out. (m), diluted	1,167	1,167	0.0%	1,167	0.0%	1,166	0%
<b>Diluted EPS (\$)</b>	<b>(0.08)</b>	<b>0.10</b>	<b>-181%</b>	<b>0.14</b>	<b>-159%</b>	<b>0.93</b>	<b>-109%</b>
<b>Adj. diluted EPS (\$)</b>	<b>0.07</b>	<b>0.10</b>	<b>-30%</b>	<b>0.15</b>	<b>-52%</b>	<b>0.22</b>	<b>-69%</b>
Net debt	4,307	3,871	11%	4,017	7%	4,518	-5%
<b>Operational Highlights</b>							
<b>Volumes-attributable</b>							
Gold production (000 oz)	1,067	1,067	0%	1,049	2%	1,432	-26%
Gold sales (000 oz)	1,037	1,037	0%	1,071	-3%	1,398	-26%
Copper production (m lb)	83	83	0%	85	-2%	104	-20%
Copper sales (m lb)	74	74	0%	85	-13%	98	-24%
<b>Average prices</b>							
Gold price (\$/oz)	1,313	1,306	1%	1,330	-1%	1,258	4%
Copper price (\$/lb)	3.11	3.12	0%	3.15	-1%	2.57	21%
<b>Cash costs</b>							
Gold cash costs (\$/oz)	605	605	0%	573	6%	474	28%
Copper cash costs (\$/lb)	2.10	2.09	1%	1.88	12%	1.72	22%

Source: Company data and Deutsche Bank



Forecasts and ratios

Year End Dec 31	2017A	2018E	2019E
EPS (USD)	0.74	0.62	0.59
P/E (x)	22.6	18.9	20.0
DPS (USD)	0.11	0.11	0.11
Dividend yield (%)	0.6	0.9	0.9
Revenue (USDm)	8,374	7,380	7,236
EV/EBITDA	5.0	5.1	5.1

Source: Deutsche Bank estimates, company data



# Appendix 1

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\*Other information available upon request

Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
Barrick	ABX.N	11.82 (USD) 25 Jul 2018	2, 14, 15

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Historical recommendations and target price. Barrick (ABX.N)

(as of 07/24/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1.	08/12/2015	Buy, Target Price Change USD 12.00	Jorge Beristain, CFA	9.	10/03/2016	Upgraded to Buy, Target Price Change USD 22.00	Jorge Beristain, CFA
2.	12/17/2015	Buy, Target Price Change USD 11.00	Jorge Beristain, CFA	10.	12/20/2016	Buy, Target Price Change USD 21.00	Jorge Beristain, CFA
3.	02/23/2016	Buy, Target Price Change USD 12.00	Jorge Beristain, CFA	11.	02/23/2017	Buy, Target Price Change USD 22.00	Jorge Beristain, CFA
4.	03/01/2016	Buy, Target Price Change USD 14.50	Jorge Beristain, CFA	12.	06/23/2017	Buy, Target Price Change USD 21.00	Chris Terry
5.	03/23/2016	Downgraded to Hold, Target Price Change USD 14.50	Jorge Beristain, CFA	13.	10/17/2017	Buy, Target Price Change USD 19.00	Chris Terry
6.	04/27/2016	Hold, Target Price Change USD 15.00	Chris Terry	14.	01/16/2018	Buy, Target Price Change USD 18.00	Chris Terry
7.	07/06/2016	Hold, Target Price Change USD 20.00	Jorge Beristain, CFA	15.	02/13/2018	Buy, Target Price Change USD 17.50	Chris Terry
8.	07/29/2016	Hold, Target Price Change USD 22.00	Jorge Beristain, CFA	16.	03/15/2018	Buy, Target Price Change USD 15.00	Chris Terry

Equity Rating Key

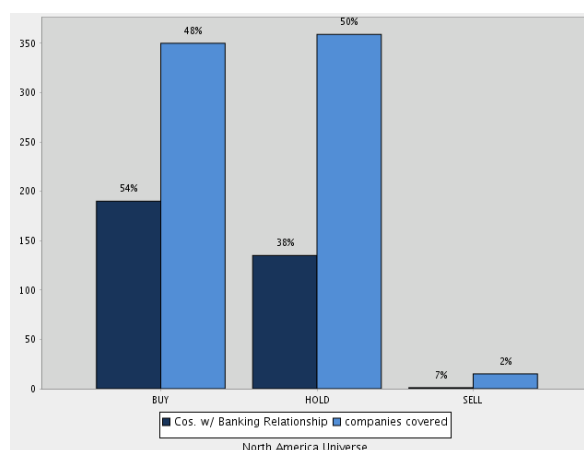
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Pam Finelli  
Global Head of  
Equity Derivatives Research

Andreas Neubauer  
Head of Research - Germany

Spyros Mesomeris  
Global Head of Quantitative  
and QIS Research

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### International Production Locations

#### Deutsche Bank AG

Deutsche Bank Place  
Level 16  
Corner of Hunter & Phillip Streets  
Sydney, NSW 2000  
Australia  
Tel: (61) 2 8258 1234

#### Deutsche Bank AG

Mainzer Landstrasse 11-17  
60329 Frankfurt am Main  
Germany  
Tel: (49) 69 910 00

#### Deutsche Bank AG

Filiale Hongkong  
International Commerce Centre,  
1 Austin Road West, Kowloon,  
Hong Kong  
Tel: (852) 2203 8888

#### Deutsche Securities Inc.

2-11-1 Nagatacho  
Sanno Park Tower  
Chiyoda-ku, Tokyo 100-6171  
Japan  
Tel: (81) 3 5156 6770

#### Deutsche Bank AG London

1 Great Winchester Street  
London EC2N 2EQ  
United Kingdom  
Tel: (44) 20 7545 8000

#### Deutsche Bank Securities Inc.

60 Wall Street  
New York, NY 10005  
United States of America  
Tel: (1) 212 250 2500

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