Is Barrick Gold Corp. Now Oversold?

Description

Barrick Gold Corp. (TSX:ABX)(NYSE:ABX) is down 20% in the past month, and investors who missed the rally earlier in the year are wondering if this is a good opportunity to buy the stock.

Let's take a look at the current market situation to see if Barrick should be on your buy list.

Gold price

Gold surged through the first half of 2016 as reduced expectations for rate hikes in the United States put pressure on the American dollar. The precious metal also received a boost from investors looking for a safe place to park their cash.

The U.S. Federal Reserve was supposed to increase rates four times this year, but weak data, concerns about global financial markets, and the Brexit vote forced the Fed to sit on its hands.

After the Brexit, the Bank of England announced a rate cut and implemented a new stimulus program to combat the negative effects of the U.K.'s decision to leave the European Union. This had many analysts calling for the Fed to hold off its next rate hike until 2017, but the mood has changed in recent weeks.

Stronger data and hawkish comments by Fed board members now have pundits calling for a rate hike as early as this month, and that has put pressure on gold and the miners.

The August jobs report, due out on September 2, will have a big impact on the market. A strong report is likely to send gold lower, while a weaker-than-expected number could put a new tailwind behind bullion.

Most of the attention is on the U.S., but events around the globe also deserve investor attention.

Japan and some European countries are going the opposite direction with rates and have even dipped into a negative-rate situation. This essentially means that you have to pay the government or the bank to hold your money.

In that scenario, gold starts to become an attractive alternative for investors looking for a place to stash their cash. If the negative-rate trend expands, gold could see more support in the medium term.

Barrick's appeal

Barrick is making good progress on its turnaround efforts. The company reduced its debt load by US$3 billion last year and is on track to shave off another US$2 billion in 2016.

Operating expenses are also coming down. The company posted Q2 2016 all-in sustaining costs (AISC) of US$782 per ounce on production of 1.34 million ounces.

Guidance for 2016 is 5-5.5 million ounces at AISC of US$750-790 per ounce. Barrick is the low-cost producer among its peers and has the largest output.

Free cash flow for the second quarter was US$274 million. Barrick has been free cash flow positive for five straight quarters.

Should you buy?

The stock has come back to the point where it is beginning to look attractive, but I would wait for a confirmation that the pullback has ended before starting a new position.

The August employment data will be key to the near-term direction of the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/03
Date Created
2016/09/01
Author
aswalker