



Barrick Gold Corp.: Stock Sheds +10% In one day, Time To Buy?

Description

A very bad combination of events led to the world's biggest gold producer, **Barrick Gold Corporation**'s ([TSX:ABX](#))(NYSE:ABX) shares losing a tenth of their market value in a single trading day on Tuesday, April 25, 2017.

Is this the time to jump in and buy the company's shares cheap?

Probably. However, let's have a look at why the shares took such a knock on this day.

Firstly, the company reported its Q1 2017 earnings on Monday, April 24, and there were some negatives in the report.

For the first time in six quarterly earnings reports, Barrick Gold missed analyst earnings targets after beating the same targets for five consecutive quarters.

This was a significant first disappointment to an investing community that had become accustomed to earnings beats from the gold miner for more than a year.

Analyst estimates become investor performance benchmarks for either an upgrade in a stock valuation or a downward adjustment, and this time, a rare earnings miss from Barrick Gold warranted a downward adjustment in the stock price, but arguably not by this wide a margin.

So why a ten percent decline?

The answer lies in the earnings announcement too.

Barrick Gold made a downward revision to its 2017 gold production outlook from 5.6-5.9 million ounces to 5.3-5.6 million ounces. This warranted punters to revise their 2017 revenue range estimates for the company.

However, the trimmed production output was not supposed to come as a surprise to the market because the company had earlier announced that it was selling off half its stake in Veladero mine in

Argentina to a Chinese firm **Shandong Gold Mining Co.** It was the removal of this production interest that constituted about two thirds of the company's downward revision in this year's total production forecast.

This news piece was something to be expected, but sometimes, humans do wait for a confirmation of an obvious sad event for the negative emotions to be fully triggered. This is natural human behavior.

The third reason why Barrick shares fell sharply has to do with price momentum.

On this day traders were still adjusting downwards their gold price expectations after the feared France election first round result on April 23, 2017 did not produce the worst feared result and a higher risk sentiment that the market had been put into higher gold futures and gold mining stocks prices prior to the election.

On top of the French election result adjustment, Barrick has been in the news lately because of a cyanide spill at its Veladero mine that has halted production. Veladero is Argentina's largest gold mine and Barrick's third largest contributor to output. The spill has hurt mineral production.

Given all the above, a 10% decline in the stock of a financially strong firm like Barrick Gold could be a great and a rare opportunity for those investors who have been lurking on the sidelines to buy into the mighty gold producer.

Barrick's year on year profitability growth is still promising and could sustain the company's stock price going forward.

The market's adjustments of the futures gold price has always been up and down, as usual. The continued global political tensions led by North Korea and a weakening United States Dollar will likely push the gold price up at some moment in the near future.

Investor takeaway

Barrick Gold's share price will most likely recover over the next three to four quarters since almost all the reasons for the massive buttering of the stock in a single day do not seem long term. The surprise increase in costs that led to the earnings miss will likely be addressed in the coming quarters.

The same speculative forces pulling down the price of gold may raise it back up any time. Barrick Gold's fundamentals do remain intact and the current plunge might be a great long term buying opportunity.

Do assess the risks, probably wait for the selling pressure to die down and judge if you can shoulder the currently high share price volatility before investing.

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Author

brianparadza

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