



Contrarian Investors: Could Barrick Gold Corp. Rise 100%?

Description

Contrarian investors are always searching for beaten-up stocks that may be on the verge of a [rebound](#).

Let's take a look at **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) to see if this is the right time to start a position in the mining giant.

Gold rally

Gold is up more than US\$90 per ounce in the past month and more gains could be on the way.

The U.S. dollar continues to lose ground against a basket of six key currencies. This makes gold, which is priced in U.S. dollars, more affordable for global buyers, which could be fueling part of the surge.

In addition, analysts are looking at soft inflation data in the United States and thinking that the Federal Reserve (the Fed) might not raise rates as expected in the next 12 months.

Heading into 2018, the market was looking for three rate hikes. If it looks like the Fed will slow down the pace, gold could get an additional boost.

Why?

Higher rates tend to put pressure on gold, which doesn't provide any yield. As interest rates increase, funds can shift out of gold and into fixed-income alternatives.

Chinese buying ahead of the Lunar New Year could also be contributing to the current rally as people attempt to pick up the yellow metal before prices rise higher.

Finally, some pundits think a shift from cryptocurrencies to gold is occurring. Cryptocurrency mania took off in Q4 2017, which may have contributed to the dip in gold prices during that time.

Should you buy Barrick right now?

Gold can be volatile, so you have to be a bull to buy any of the stocks. If you think the [gold rally](#) is in its early innings, Barrick Gold might be a good pick today.

The company is the sector's largest producer with one of the lowest cost structures, so a meaningful rise in the price of gold can make a huge difference in cash flows.

For example, Barrick is expected to report full-year 2017 production of 5.3-5.5 million ounces. Assuming the company produces 5 million ounces in 2018, a US\$100 increase in the average realized price of gold would boost cash flow by US\$500 million.

The company is making good progress on its efforts to reduce debt, and that trend should continue.

The stock sells for \$18.50 per share and gold is at US\$1,330 per ounce at the time of writing. Last February, the stock was above \$26 when gold was US\$1,240, so Barrick might be oversold today.

Upside?

A double in 2018 would require a big surge in gold and a major shift of funds into the sector. While that's certainly possible, I wouldn't back up the truck on those expectations. However, it might be worthwhile to start a contrarian position while Barrick remains out of favour.

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