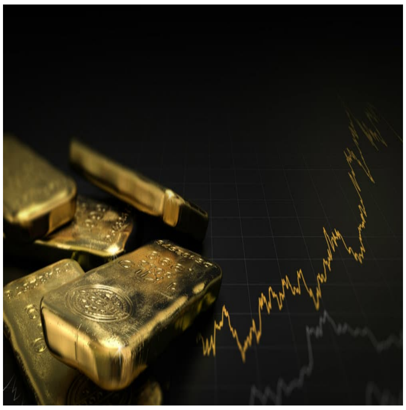

Contrarian Investors: Is Barrick Gold Corp. (TSX:ABX) Stock Attractive Right Now?

Description

Gold miners are having a tough year. In fact, things haven't been great since gold hit its peak above US$1,900 per ounce seven years ago.

A quick peek at the charts of most of the major players is reason enough to look for other investment opportunities. However, some contrarian types are starting to warm up to the beleaguered yellow metal and the miners.

Let's take a look at the current situation in the market, as well as the industry's largest producer, **Barrick Gold** (TSX:ABX)(NYSE:ABX) to see if this is the right time to start a small position in your portfolio.

Gold outlook

Gold is trading at US$1,200 per ounce, which is not far off the 12-month low and down significantly from the US$1,360 level it enjoyed five months ago.

A number of factors have had an impact on gold, and analysts are trying to decide if more downside is on the way or if the pullback is overdone.

Rising interest rates in the United States are getting blamed for much of gold's woes. The reason lies in widespread opinion that higher rates make gold less attractive to investors who are looking for a safe place to park their money. Gold doesn't pay you anything to own it, so an alternative that offers a 3% yield with no risk might be enticing. As the U.S. Fed continues to raise rates, gold could face even stronger headwinds, especially if the Fed becomes more aggressive.

The other culprit might be a rising U.S. dollar. Gold is priced in U.S. currency, so any increase in the value of the greenback compared to other currencies makes gold more expensive for international buyers, which could impact demand. Since April, the dollar has rallied against a basket of key currencies.

Where do we go from here?

The U.S. Federal Reserve is expected to raise rates two more times in 2018, and the market is anticipating another three hikes next year. On the dollar side, trade war fears are taking a toll on some emerging market currencies, and while contagion fear remains low, rumblings are becoming more common, which could fuel more dollar strength in the coming months.

As such, the near-term outlook for gold is probably negative.

The contrarian case

Contrarian investors are known to zig when everyone else zags, and the time might be coming to take that approach on gold, as markets sometimes deliver the unexpected. Too many rate hikes too soon could push the U.S. economy into a recession and force the Fed to unwind the process. In addition, the U.S. dollar is starting to look overbought, so we could be in for a gold reversal despite all the perceived headwinds.

On the supply side, new gold deposits are becoming harder to find, especially ones that are high grade and easy to mine. As a result, consolidation is expected to ramp up in the coming years, and we could see the market eventually controlled by a handful of producers. Barrick Gold would likely be one of those companies.

Should you own Barrick Gold?

Barrick Gold is the world’s largest gold producer and has made great progress on its plan to reduce debt and become a much leaner organization. Total debt is down from US$13.1 billion in 2014 to below US$6 billion today.

The company expects 2018 gold production to be 4.5-5 million ounces at all-in-sustaining costs of US$765-815 per ounce. That makes Barrick Gold one of the lowest cost producers in the industry. The company raised the dividend last year, and more increases should be on the way as debt is further reduced. The current yield is 1.2%.

The stock trades at $13 per share. A year ago it was $21, so the upside is significant if gold can catch a break. You have to be of the opinion that gold is going higher over the long term to own any of the miners today. If you are part of that crowd, it might be a good time to take a small contrarian position in Barrick Gold.

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