



## Barrick Gold Stock (TSX:ABX): Could the Share Price Hit \$35 in 2020?

### Description

**Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) has enjoyed a nice rally since the middle of last year and investors are wondering if the bounce is the beginning of an extended recovery.

Let's take a look at the current situation in the gold market and try to decide whether this might a good time to add Barrick Gold to your [portfolio](#).

### Global uncertainty

Gold is widely viewed as a safe haven asset and cash often flows into the yellow metal when investors are concerned about geopolitical tensions or global financial risks.

Through most of 2019 the heated trade battle between China and the United States propped up gold demand. Punitive tariffs put heavy pressure on certain industries, disrupting supply chains and forcing businesses to shelve investment decisions amid the uncertain outcome of the negotiations.

The announcement of the phase one agreement and subsequent signing of the trade pact should have put pressure on gold prices, but the market remained strong through that time frame.

This suggests that gold traders aren't convinced the battle is complete and might be anticipating more turbulence. Indeed, tariffs remain in place and the two sides are far from a broad-based agreement.

The killing of one Iran's top military leaders by the United States in January increased tensions in an already unstable Middle East. This followed the September attacks on Saudi Arabia's oil facilities.

The U.S. blamed Iran for that attack. Saudi Arabia didn't respond with military action, but global investors are concerned an escalation of tensions could trigger new military conflict.

Roughly 20% of global oil transport passes through a narrow waterway called the Strait of Hormuz that is located between Iran and Oman. Pundits have speculated that Iran might attempt to block the waterway. This would likely lead to a strong reaction from the United States and Iran's oil-producing

neighbours.

The coronavirus outbreak in China has added more uncertainty to the outlook for the global economy. Tourism, manufacturing, and retail sales are being impacted and China's significant role in the world's intricate supply chains means a domino effect could be a risk.

Stock markets are holding up well at this point, and gold also continues to maintain its gains.

## Next leg up

Central banks around the globe could launch a new round of aggressive rate cuts in an effort to counter the impact of slowing economic activity. A race to devalue currencies is possible and the world is already seeing trillions of dollars in government bonds trading at negative yields.

This makes no-yield gold, which trades in U.S. dollars, more attractive for those seeking to protect wealth.

## Is Barrick Gold headed to \$35 per share?

Barrick Gold spent the better part of the past decade in the penalty box after the company loaded up on debt to make large expensive acquisitions at the top of the market.

The share price fell from \$50 in 2011 to below \$10 in 2015. [Contrarian](#) investors who had the courage to step in at that point have done well. Today the stock trades at \$26 at writing.

Barrick recently reported solid results for 2019 and the outlook should be positive, even if gold simply maintains its recent gains. The company has reduced debt from US\$13 billion a few years ago to net debt of US\$2.2 billion at the end of 2019.

The CEO indicated the company could have zero net debt by the end of 2020 if the market remains positive. Barrick's board just raised the dividend by 40%, so the company is obviously comfortable with the cash flow situation.

Gold is up US\$300 per ounce since the end of May last year. Another US\$300 increase through the remainder of 2020 is certainly possible.

Barrick gold is targeting average annual gold production of about five million ounces over the medium term. A sustained US\$300 increase in the gold price adds an extra US\$1.5 billion in cash. In this scenario, Barrick Gold has the potential to generate substantial free cash flow and the market might not be appreciating that opportunity.

Gold can be volatile, so I wouldn't back up the truck, but Barrick Gold appears attractive today and a move to \$35 by the end of the year wouldn't be a surprise.

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