



Why This Gold Producer's Stock Price Is Set to Soar

Description

The price of gold has finally started to see some appreciation, as uncertainty in equity markets begins to creep into market sentiment. At the time of writing, US\$1,600/ounce gold has aided in a decent valuation bump for many gold producers compared to a year ago. Investors expect to see higher margins over the long term should these new levels hold.

The impact of ETFs

What is interesting to note is that it appears we have really begun to see the impact of exchange-traded funds (ETFs) on stock market prices that have, in some cases, diverged from commodity prices as well.

During the massive selloff we saw during the last week of February, where stock markets declined by the widest margin in percentage terms since the financial crisis, gold stocks broadly fell as well. Many analysts believe this can be attributed to the fact that many gold producers are included in a range of ETFs that saw capital outflows, which outpaced capital inflows from non-ETF investors.

I believe this effect to be temporary and expect the stock prices of gold producers to trade again in higher correlation to commodity prices over the long term. I also agree with research released by **Goldman Sachs**, which has raised its forecast for the price of gold to US\$1,850/oz due primarily to global growth concerns. Also priced in are near-term issues stemming from the coronavirus outbreak.

Barrick Gold

These key macroeconomic factors are core reasons why I like **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) from an exogenous perspective. In addition, I believe the various [idiosyncratic drivers unique to Barrick's business model](#) will serve investors well over the long term.

Fundamentally, Barrick has an excellent balance sheet relative to its size. Leverage rates and other valuation metrics need to be viewed within the narrow scope of the mining sector alone. They can't be

compared to other sectors due to the unique capital needs of these companies.

Barrick has continued to pay a small but meaningful (and growing) dividend. In and of itself, this dividend provides something to gold investors that physical gold can't provide: yield.

One of the key drivers of Barrick's business model I have liked for some time is the attention the company pays to its reserves and its pipeline of new projects, as its existing mines deplete reserves over time.

The gold producer has recently struck an agreement to fund the development of 28 new sites in key mining regions of Japan. There, Barrick will be searching for large potential reserves, a practice termed "elephant hunting" in the mining sector. These sites have not yet gone through feasibility studies yet. This means any large gold deposits that may be discovered could provide huge upside to long-term investors in a rising gold price environment.

Stay Foolish, my friends.

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