Market Rally: Why Did Barrick Gold (TSX:ABX) Stock Rise 85%?

Description

Barrick Gold Corp (TSX:ABX)(NYSE:GOLD) was already one of the largest gold stocks in the world. Thanks to the market rally, its valuation is now 85% higher. The rise happened in a matter of weeks.

This is an exciting opportunity. During times of turbulence, particularly severe bear markets, gold has been a fantastic investment. With federal governments running their printers non-stop, this precious metal could experience its best performance in history.

With more resources than nearly every competitor, Barrick Gold has a front seat to the action. Even after the market rally, investors should pay close attention to this stock.

Barrick Gold is ready

Following its merger with Randgold, Barrick became one of the largest gold miners in the world. The combined company now has a market cap of $63 billion. The business retains mining assets on every continent apart from Antarctica.

During times of turmoil, size is king. Smaller competitors will struggle to finance their operations. This could lead to a slide in industry supply, raising prices for the survivors. Additionally, volatility should open additional opportunities for acquisitions. Uncertainty ensures that this expansion can occur at compelling price points, even after the market rally.

When it comes to financial strength, Barrick is better positioned than ever. In 2019, it generated $1.1 billion in free cash flow, up from $365 million in 2018. Net debt stands at $2.2 billion, a 47% decrease from the year before, the lowest level since 2007. If free cash flow levels are sustained, the debt could theoretically be paid off in less than 24 months.

Most important is that industry supply was already forecast to fall over the coming decade. The latest market rally won't change that fact. "Very few companies able to deliver value growth in this environment," the company notes, highlighting that 2020 is expected to be the peak year of global gold production.

This year, industry production should hit 118 million ounces. Supply is expected to shrink every year afterwards, falling to just 65 million ounces by 2029. If this comes to pass, gold prices should rise, resulting in a market rally for every gold stock that can continue pumping.

Judging by its vast resources and deep reserves, Barrick should have no issue benefiting from this long-term industry supply shortage.

Buy the market rally

Despite a recent boost, Barrick stock still trades at 2012 prices. Valuation multiples, however, are still above their five-year average. Shares now trade at 2.2 times book value, versus a trailing average of 1.9 times book value.

While that valuation isn't a screaming bargain, it's reasonable enough during such uncertain times. Consider what happened in 2008 and 2009, the worst years of the last financial crisis. Barrick shareholders ultimately exited the volatility with a *profit*.

The recent market rally has treated Barrick shares well. That's in anticipation of more market turbulence, which should only work to the company's advantage.

Barrick stock has risen 85% in a matter of weeks, but it's a well-deserved rise. If you're worried that the market rally will lose steam, it's still worthwhile to buy Barrick stock as a hedge against another downturn.

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