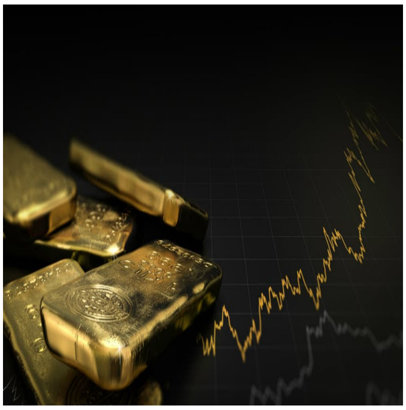

Gold Stocks Just Plunged: Is it a Good Time to Buy?

Description

After a stupendous bull run, gold stocks lost significant value overnight. Gold prices were up 35% year to date, and it seemed investors decided to book profits in the yellow metal. This resulted in a sell-off, as investors offloaded gold mining companies, which sent stocks spiraling downwards.

Gold prices rose from $1,519.5 an ounce in December 2019 to over $2,000 an ounce in the last week. Gold prices are currently at $1,886.4, and this pullback in price impacted stock prices of gold mining companies.

Shares of **Barrick Gold** (TSX:ABX)(NYSE:GOLD) fell 9%, while **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) fell 6.6%. Other Canadian gold companies such as **Franco-Nevada** and **B2Gold** fell close to 7% on August 11, 2020.

So, does this correction in stock prices of gold companies warrant a closer look?

Will gold prices move higher?

Bond yields remain closer to record lows, and equity markets are impacted by the COVID-19 pandemic. This makes asset classes like gold extremely attractive right now. Further, the U.S. economy is sluggish, which might spur lending, driven by lower borrowing costs. Quantitative easing measures will also put pressure on the U.S. dollar, which historically has an inverse relationship with gold.

As Fool contributor Sean Williams states, gold bull markets last a long time. For example, gold prices rose 1,500% between December 1969 and January 1980, while they were up 600% between August 1999 and August 2011. Now, gold prices are up over 80% in fewer than five years.

Looking at historical trends, there is a good chance that gold prices might reach $2,500 per ounce by the end of 2020.

Gold stocks are a top bet amid uncertainty

The sell-off is a good opportunity to buy gold stocks if you are bullish on gold prices. Shares of Barrick Gold are trading at $34.87, which is 14% below its record highs. However, the stock is up 250% in the last five years.

Barrick Gold sales are up 59% year over year in the first six months of 2020, while its adjusted EBITDA has also risen 60%. Its stellar performance has helped the company lower debt and increase quarterly dividends by 14%.

Barrick Gold has focused on strengthening its balance sheet over the last few years and aims to reduce net debt to zero by the end of 2020. Mining is capital intensive, and Barrick's lighter balance sheet will boost investor confidence.

In the second half of 2020, analysts expect sales to increase by 25% year over year, which means investors can brace for another round of dividend increases.

Kirkland Gold is another mining company with a strong balance sheet. It ended June 2020 with a cash balance of $537 million and is debt-free. Kirkland increased dividends by 100% and allocated close to $400 million in share repurchases.

Kirkland stock is trading at $64 per share, which is 16% below its 52-week high. In the last five years, the stock has returned a staggering 2,000%, making it one of the top stocks on the **TSX**.

Kirkland continues to grow via acquisitions and saw its Q2 sales more than double to $581 million in the June quarter.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. TSX:ABX (Barrick Mining)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Sharewise
6. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/23
Date Created
2020/08/12
Author
araghunath