



Warren Buffett: It's Time to Buy Gold Stocks

Description

Even Warren Buffett, one of the greatest investors of our time, bought some gold for his portfolio. Specifically, in the second quarter, he invested approximately US\$565 million in **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) through **Berkshire Hathaway**. Since then, the gold miner stock has only appreciated about 7%.

Usually, Buffett doesn't trade in and out of stocks quickly. He would potentially sell his public stock holdings when they arrive at their intrinsic values. Often, that doesn't happen overnight.

Gold miners don't pay much of a dividend. Right now, Barrick Gold only yields 0.60%. So, he must expect to get meaningful returns from stock price appreciation.

Rising gold prices

Barrick Gold stock has been in a renewed upward trend since late 2018. The growth of its profits really started coming through in 2019 when it boosted its revenue by 34% to US\$9,717 million. The EBITDA margin also improved to 46.8% from 2018's 41.7%. And the company's net income more than tripled, swinging from a loss in 2018 to a net income of US\$3,969 million in 2019.

A bottoming of the gold spot price and a breakout in 2019 has led to a rising gold price. This is the driver for gold miners trading higher in the last couple of years.

The gold price is still advancing, though, not without volatility. A driver of mounting gold prices are global central banks printing unprecedented levels of money — the latest reason to do so being to support the pandemic-impacted economy. As a result, fiat currencies are worth less, in turn, pushing the gold price higher.

Coming soon: Greater free cash flow for Barrick

Barrick forecasts all-in sustaining costs of up to US\$970 per ounce, while the gold spot price is at

about US\$1,900 per ounce. This spells pure profits for Barrick.

The gold miner generated operating cash flow of US\$1,920 million in the first half of the year (H1) and reported capital spending (CapEx) of US\$960 million. So, the free cash flow (FCF) generation was US\$960 million in H1.

It estimates CapEx of US\$1,600-\$1,900 million this year, including approximately 80% that is sustaining CapEx. Since the gold spot price is higher than it was in H1 and the remaining 2020 CapEx is lower than the amount used in H1, it should translate to even greater FCF for Barrick in H2.

It's a good time to buy gold stocks

Barrick Gold stock is in consolidation mode. Currently, the \$40 level serves as resistance. The gold stock has just retreated to a relative strength index of about 50 to roughly \$35 per share.

It may be a good time to buy some shares between the \$30 and \$35 range. If the stock plunges to the \$18 to 28 range, gold bulls should take the opportunity to back up the truck!

Right now, analysts have a 12-month average price target of US\$35.20 (roughly CAD\$46.11) per share on Barrick, which represents a near-term upside potential of about 31%. This makes it quite an attractive investment, given Barrick's globally diversified portfolio of high-margin, long-life assets.

The Foolish takeaway

Buffett recently took a bite out of Barrick Gold and with its rising profits, he could buy some more in the near future. Now is a good time to dig deeper into your favourite [gold stocks](#), as the stocks have dipped since August. Above-average price gains could be in the cards!

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