



## Barrick Gold (TSX:ABX) Beat Q3 Earnings by 173%

### Description

Gold mining giant **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) announced its third-quarter earnings report today. The company reported better-than-expected net income and sales over the previous year and surpassed most analyst expectations. In my view, this could be an early sign of much more momentum in gold stocks going into 2021.

Here's a closer look at the report and Barrick Gold stock's valuation.

### Q3 2020

Barrick Gold says it generated US\$3.54 billion in sales during the three months ended September 30. That's up from US\$2.68 billion. The company also reported \$0.41 in earnings per share, 28% higher than analyst estimates and 173% higher than the same quarter in 2019.

The miner also generated US\$1.3 billion in free cash flow (FCF) over these three months — a record high. That's encouraged the management team to boost the dividend by 12.5%.

This is the third quarter over the past year where dividends and earnings per share have surpassed expectations. It seems Barrick Gold stock is on a glittering run of success.

### Factors driving earnings

This recent quarter was excellent, but investors need to look ahead. If the factors driving Barrick Gold's earnings and profitability this year continue into the new year, investors should look for more pleasant surprises ahead.

As I mentioned in a [previous article](#), the price of gold is surging, because governments across the world are printing money relentlessly. Meanwhile, investors are fleeing to safety as nearly every asset class becomes precariously overvalued. I can see these issues lingering for a few years, which means gold should continue its recent bull run.

However, the most important factor to consider here is Barrick Gold's valuation.

## Barrick Gold's stock valuation

At the time of writing, Barrick Gold stock is up 5%. That implies a market value of \$66.6 billion. Meanwhile, if you extrapolate this quarter's free cash flow (FCF) over the next year, Barrick could generate a whopping \$6.8 billion in FCF. That means Barrick Gold stock is trading at a price-to-FCF ratio of 9.8.

Put another way, Barrick Gold stock could generate a FCF yield of 10.2% over the next year, if it can sustain this cash flow. That covers the company's dividend yield (1.17%) and leaves plenty aside for reinvestment and expansion.

In short, the stock looks undervalued — especially if you believe gold prices will increase in 2021. That's probably why Warren Buffett holds such a huge stake in the Canadian gold miner. It's also the reason why you should consider adding some exposure to this stock.

## Bottom line

Barrick Gold has delivered better-than-expected third-quarter results. The factors driving the price of gold and Barrick Gold's earnings higher could be sustained in 2021 and beyond. Meanwhile, the stock is undervalued. That's why it should be on your radar.

As the company continues to outperform and hike dividends, the stock could surge much higher next year.

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