Barrick Gold (TSX:ABX): 2021 Could Be the Year of the Yellow Metal

Description

The price of gold escalated throughout the pandemic last year. Each ounce is now worth US$1,840 (C$2,330) – 17% higher than a year ago and 47% higher than five years ago.

Gold's steady climb has coincided with the growing amount of global debt. As governments, corporations and individuals add more debt to their books, the yellow metal becomes relatively more valuable. Here's why this pattern could push gold, and gold miners, to new heights in 2021.

Inflation worries

Governments have borrowed an unprecedented amount to finance economic relief. In Canada, the government has deployed over $240 billion in relief programs. Since businesses were shut and Canadians were unemployed, this spending couldn't be financed by tax revenue. Instead, it was printed by the central bank.

The Bank of Canada has now printed so much currency, that it accounts for nearly a third of the bond market. The national debt is now 88.6% of the nation's economic output. Other developed nations, from Australia to the United States, have similarly pushed their debt burden to record levels.

Economists now worry that the debt could trigger inflation and reduce the value of national currencies. In this scenario, gold becomes a safe haven and the price escalates.

Gold had a similar boost in market value during the inflation crisis of the 1970s. Double-digit annual inflation pushed the price of gold from US$35 per ounce in 1971, to a peak of US$180 in late 1974. We could be facing a similar run now. In which case, investors should consider adding exposure to gold and gold mining stocks.

Barrick Gold stock

Barrick Gold (TSX:ABX)(NYSE:GOLD) is a gold play well-positioned to glitter in 2021, as was the case in 2020. A weaker U.S. dollar at the back of record-low interest rates should continue to support higher gold prices, making the Canadian gold play attractive, especially after the recent correction lower.

Gold price impact

At $28 a share, Barrick Gold is still undervalued given the high gold prices, which appear to have stabilized above the $1800 per ounce level. With the company on track to reach its annual gold production of between 4.6 and 6 million ounces, it remains well positioned to see an uptick in revenues.

Higher revenues and improved earnings are some of the factors likely to support the share price from the current discounted levels. Expectations of healthy revenue and margin growth in 2021 and higher production should see Barrick Gold's free cash flow increase significantly.

Barrick Gold prospects

Barrick gold generating strong free cash flow should excite income-focused investors given that the company reported a 12.5% increase in its dividend last year. Its current 1.6% dividend yield is attractive and likely to receive a boost as free cash flows improve with a spike in gold prices.

Barrick gold is a gold play and a big player in the copper production business. Copper prices surging to seven years highs in 2020 has also presented an opportunity for the company to generate significant returns. Higher gold prices should result in a spike in Barrick gold revenues. That is ideal for enhancing free cash flow needed to support dividends.

Barrick Gold stock is already up 16% over the past year. That is comparable to the bull rally in the underlying commodity. The stock trades at a reasonable 13 times earnings per share and offers a 1.64% dividend yield.

Conservative investors worried about the frothiness of the market should certainly add this to their watch list.

CATEGORY

1. Investing

TICKERS GLOBAL

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

PARTNER-FEEDS

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

Category

1. Investing

Date
2025/08/25
Date Created
2021/02/10
Author
vraisinghani