



Contrarian Investors: Is Barrick Gold Stock Now Heavily Oversold?

Description

The surge in stock prices in recent months has pushed the **TSX Index** to new highs. Some top stocks, however, have fallen out of favour and should be contrarian buys right now. Let's take a look at **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) stock to see why it fits the description.

Why Barrick Gold deserves to be on your contrarian buy list

Warren Buffett's **Berkshire Hathaway** just revealed it sold its holdings in Barrick Gold in the later part of 2020. The news hit Barrick Gold's stock price last week, but the fact that [Warren Buffett](#) bought the shares in the first place is a vote of confidence in Barrick's position in the industry.

The gold miner went from being nearly crushed by US\$12 billion in debt a few years ago to its current position of having zero net debt. Barrick Gold's transition to a leaner company focused on high-return assets and strong free cash flow continues. The company recently reported solid [Q4 2020](#) and full-year results.

Strong gold and copper prices boosted revenue and lifted free cash flow to US\$1 billion in Q4 and US\$3.4 billion for the full year. Barrick gold continues to divest non-core assets as it streamlines operations.

All-in sustaining costs for gold came in at US\$967 per ounce for 2020. At the current gold price near US\$1,800, Barrick Gold generates significant cash flow.

On the copper side, the metal just hit a nine-year high at US\$4 per pound. Barrick Gold's 2020 all-in sustaining costs on copper were US\$2.23 per pound, so that division stands to do well in 2021.

The board has tripled the [dividend](#) since 2018 and just announced plans for a special return of capital to shareholders of US\$750 million. The quarterly distribution is US\$0.09 per share. The special dividend will work out to US\$0.42 per share spread out over three payments in 2021.

In effect, Barrick Gold is now a free cash flow machine.

Risks?

The rise of Bitcoin is viewed by some pundits as a threat to gold. Time will tell if that theory holds true, but gold isn't going to lose its place as a safe-haven investment or a hedge against inflation.

The correlation between the price of Bitcoin and the price of gold is worth watching. When Bitcoin surged in late 2017, gold fell, suggesting that gold investors shifted funds towards the cryptocurrency. Bitcoin's latest meteoric surge might be having the same impact.

Should you buy Barrick Gold stock now?

At the time of writing, Barrick Gold stock trades near \$25 compared to \$40 in September. The sell-off appears overdone when you look at the ongoing strength in the gold market and the company's ability to generate significant free cash flow.

While copper is a smaller part of the picture, the division stands to generate great returns in the next few years. Copper demand should soar on the back of massive fiscal stimulus measures aimed at industries that use significant amounts of the metal. This includes electric vehicles, solar panels, and wind turbines. The copper opportunity might not be fully reflected right now when it comes to Barrick Gold's stock price.

Ongoing volatility should be expected, but Barrick Gold appears cheap at this level and deserves to be on your radar for a contrarian portfolio.

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Date

2025/07/07

Date Created

2021/02/22

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