



Contrarian Investors: 1 Top TSX Stock to Buy Now

Description

Investors want to find top TSX stocks that will deliver strong returns for their self-directed portfolios. The overall market appears expensive today after the massive rally over the past 12 months, but [undervalued](#) gems still exist.

Why Barrick Gold deserves to be a top TSX stock pick now

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) traded near \$40 per share last August. At the time of writing, investors can pick up the stock for \$25.

The steep drop is linked to the pullback in the price of gold, which went from a high of US\$2,080 in early August to the current price near US\$1,730. Gold is always volatile, but the upward trend that began in the summer of 2018 should continue over the next few years.

Why?

There is a global race to devalue currencies in order to prop up domestic economies. The U.S. dollar index, which measures the value of the greenback against a basket of key currencies, is down 9% over the past year. Some analysts think the [dollar could drop](#) as much as 20% by the end of 2021.

Since gold is price in dollars, the yellow metal should catch a tailwind as the dollar falls in value.

Bitcoin risk

One negative for gold could be the rise of digital currencies. Pundits speculate that Bitcoin and its peers have lured investor funds away from gold and gold stocks. The crypto mania could run for some time, but it already feels like a bubble. When the party ends, gold should benefit.

Barrick Gold is becoming a cash machine

Barrick Gold [finished 2020](#) with zero net debt. The board has tripled the dividend since September 2018 and announced a special return of capital this year of US\$750 million. That's about US\$0.42 per share in addition to the quarterly dividend of \$0.09 that is currently in place. When you add it all up, existing investors should receive US\$0.78 per share this year. That's an annualized yield of 3% at the stock's current price.

Barrick Gold generated a record US\$3.4 billion in free cash flow in 2020. The average realized gold price was US\$1,778. All-in sustaining costs came in at US\$967 per ounce for the year on the gold production. At the current gold price, the company stands to generate significant free cash flow again in 2021.

Copper upside

Barrick Gold is best known as a gold producer, but the company also has major copper operations. The price of copper soared in 2020 and continues to trade above US\$4 per pound. Barrick Gold's all-in sustaining costs on the copper production last year were US\$2.23 per pound.

Copper prices pulled back a bit in recent weeks, but the bull run for the base metal could extend for the next few years. Unprecedented stimulus efforts will drive up demand, as countries around the world invest in green technology and infrastructure. Copper is a core component in solar panels, wind turbines, and electric vehicles.

The bottom line on a an oversold top TSX stock

Many of the top stocks in the TSX Index trade at expensive prices right now, but gold stocks are the exception. The miners remain out of favour today, and while additional weakness is certainly possible in the coming weeks or months, the sell-off already appears overdone, and Barrick Gold is starting to look very cheap.

The firm controlled by [Warren Buffett](#) bought Barrick Gold stock last year and later exited the position. It will be interesting to see if a new holding is started while the stock is out of favour in 2021.

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