



Is Barrick Gold (TSX:ABX) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a well-valued stock, sometimes it is better to buy the stock of a great company at an okayish price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make the best buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Barrick Gold

My beginner stock pick today is **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD). As Canada's leading gold miner, it operates 16 sites across 13 countries, with over 71 million ounces of proven and probable reserves.

Although subject to fluctuations in the spot gold price, the company has very healthy fundamentals, having met or beaten market consensus on its financial and operating results for 12 consecutive quarters ending Q4 2021. The stock is currently up 33.52% year to date.

ABX current boasts an operating margin of 35.69%, profit margin of 16.87%, ROA of 5.27%, and ROE of 10.27% — impressive financial ratios for its sector. With an outstanding current ratio of 3.95, the company's balance sheet is healthy and sustainable compared to its peers.

Valuation

ABX is solid enough of a company that I would not worry about trying to time a good entry price.

However, new investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, ABX is trading at \$31.79 as of writing, which is extremely near the 52-week high of \$33.5. In the current fiscal quarter, ABX's 52-week low is \$22.3. This is useful, as it gives investors a sense of the recent trading range.

ABX currently has a market cap of \$44.33 billion with approximately 38.81 billion shares outstanding. This gives it an enterprise value of \$44.44 billion with a enterprise value to EBITDA ratio of 7.6, which is similar to other peers in the TSX mining sector.

For the past 12 months, the price-to-earnings ratio of ABX was 22.38, with a price-to-free cash flow ratio of 19.13, price-to-book ratio of 1.88, price-to-sales ratio of 3.71, and book value per share of approximately \$13.28. These metrics indicate that ABX could be fairly valued.

ABX is currently covered by a total of 20 analysts. Of them, 11 have issued a "buy" rating, one has issued a "sell" rating, and eight have issued a "hold" rating. This is generally considered a bullish sign, given that the buy ratings outweigh the hold and sell ratings.

ABX has a Graham number of 18.24 for the last 12 months — a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, ABX does not look undervalued.

Is it a buy?

Despite its current share price being more or less fairly valued, long-term investors should consider establishing a position if they have the capital. Over the next 10-20 years, your entry price won't matter as much if ABX continues its strong track record of growth and profitability. Consistently buying shares of ABX could be a great way to build up a defensive hedge, [especially given how it performs during market corrections](#).

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