



Is Barrick Gold Stock Oversold?

Description

The recent plunge in the price of gold sent gold stocks into a tailspin. Investors who missed the gold rally earlier this year are now wondering if **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) and its peers are attractive buys.

Gold price

Gold fell from a closing high of US\$2,043 in early March to below US\$1,900 in the past few days. The drop has occurred in response to a spike in the value of the American dollar against a basket of international currencies. Gold is priced in U.S. dollars, so it can come under pressure when it becomes more expensive for holders of other currencies to buy.

Another reason for the pullback could be the general weakness across equity and commodity markets due to concerns that the global economy is headed for a downturn, driven by weakness in China caused by COVID-19 lockdowns and the ongoing effects from the war in Ukraine.

Finally, rising interest rates are pushing up yields on fixed-income investments. These can compete with gold for investor funds. Gold doesn't pay you anything to own it, so the opportunity cost of holding gold rises and interest rates increase.

Investors should expect ongoing volatility, but there is also a case for gold to move higher in the coming months. Investors are still concerned about inflation. Gold is widely viewed as a decent hedge for investors to protect buying power. The metal is also considered to be a good safe haven to park wealth in times of geopolitical and economic uncertainty.

Should you buy Barrick Gold stock?

Barrick Gold trades for \$28.70 at the time of writing compared to \$32.70 in early March. The stock is still up 20% in 2022 but well off the \$39 it reached in 2020 when gold made its last run to US\$2,080 per ounce.

Barrick Gold provided a Q1 update that indicated the company is on track to meet its full-year gold and copper production guidance. The average market price for gold in Q1 2022 was US\$1,877 per ounce. The average market price for copper was US\$4.53 per pound. Gold is at US\$1,910 per ounce at the time of writing. Copper trades near US\$4.42 per pound. At these levels, the company is making good margins and should generate strong free cash flow.

Barrick Gold finished 2021 with zero net debt. In fact, the company is now comfortably in a net cash position and has implemented a new dividend plan that pays a base distribution plus a bonus determined by the net cash position at the end of each quarter. The board raised the base dividend by 11% to US\$0.10 per share for 2022. Investors will get a bonus of up to US\$0.15 per share per quarter. In 2021, the company gave investors a total of US\$0.42 in extra payouts above the US\$0.36 base dividend.

Barrick Gold is also using excess cash to buy back stock. The current share-repurchase program will see the company spend up to US\$1 billion.

Barrick Gold owns six of the top 10 gold mines on the planet and has significant copper operations that provide a nice hedge against gold volatility. Assuming gold and copper prices remain at or above current levels, Barrick Gold should generate attractive cash flow in the coming years.

If you are a gold bull, Barrick Gold stock appears [undervalued](#) right now. Investors who would like to increase their gold exposure might want to take advantage of the pullback to add Barrick Gold to their portfolios.

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