



Gold Stocks: Is Barrick Gold (TSX:ABX) Simply Too Cheap to Ignore?

Description

Barrick Gold ([TSX:ABX](#))(NYSE:GOLD) is down 40% from the 2022 high. Gold bulls are wondering if ABX stock is now [undervalued](#) and good to buy for a contrarian portfolio.

Gold market outlook

The price of gold currently trades near US\$1,700 per ounce. That's down from the US\$2,000 the precious metal hit shortly after the start of the war in Ukraine earlier this year. A rally in the American dollar and a general pullback across all the commodities in recent months are broadly responsible for the drop in the price of gold.

Looking ahead, the reasons for gold's upward move at the beginning of the year still remain in place. Geopolitical uncertainty tends to drive safe-haven buying of gold. Pundits say the war in Ukraine could continue through the end of next year. China and Taiwan are also garnering more attention as the world worries that China might decide to take the island by force after watching the world's response to the war in Ukraine. Any indication of Chinese military aggression towards Taiwan could send the price of gold soaring.

Gold is also widely considered to be a decent hedge against inflation. The metal is priced in U.S. dollars, so holders of other currencies that see their currencies losing value against the greenback might buy more gold to protect their buying power.

Another possible tailwind could come from a shift of funds out of cryptocurrencies. Investors who sold gold in recent years in favour of **Bitcoin** and other cryptocurrencies might decide the digital coins are too volatile to own and move money back to gold.

Central Banks could also ramp up gold buying in the coming months if the anticipated global recession starts to look like it could be deeper and longer than currently expected.

Is Barrick Gold stock a buy?

Barrick Gold is scheduled to report Q2 2022 earnings on August 8. The company already released some information that showed Q2 production of gold and copper came in better than Q1 and the company is still on track to hit its 2022 production guidance for the two metals.

The average gold market price for Q2 was US\$1,871 per ounce. The average market price for copper was US\$4.32 per pound. These are very profitable levels for Barrick Gold and should lead to solid Q2 2022 profits and free cash flow.

Investors received a dividend bonus of US\$0.10 per share for the Q1 results on top of the US\$0.10 base dividend for the quarter. The bonus for Q2 will likely be US\$0.05 or US\$0.10 per share, depending on how the net cash position finished at the end of June.

Risks?

One spoiler could be rising costs. Fuel and labour expenses are higher than at the start of the year across many industries, including mining. Investors will want to see the cost guidance for the rest of the year and into 2023 when the Q2 numbers get announced. At the same time, the drop in the price of both copper and gold will weigh on margins in Q3 if they don't rebound from current levels over the next two months. At the time of writing, copper trades for US\$3.42 per pound.

Opportunity?

Despite the headwinds and the ongoing volatility, Barrick Gold stock appears oversold. The drop in the share price far exceeds the plunge in the two metals and Barrick Gold could surprise to the upside with the Q2 earnings. Production is on track for the year, so any rebound in the price of gold and copper could send the shares materially higher.

You have to be a gold bull to buy Barrick Gold stock. If you are in that camp, the shares look attractive today.

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