This Imploded Gold Stock Has a Shining Dividend!

Description

Gold stocks have taken a huge hit on the chin in recent quarters, thanks in part to the fluctuations in gold prices. Undoubtedly, the list of macro factors to worry about has steadily grown this year, with the Ukraine-Russia crisis raising geopolitical tensions to the next level. With U.S. House Speaker Nancy Pelosi visiting Taiwan, there is some worry that Beijing will escalate tensions with the United States.

Undoubtedly, Taiwan is critical to the world's chip supply. Multi-week COVID lockdowns have sparked a global chip shortage that still hasn't been fully resolved. So, one could only imagine the impact of a Chinese takeover of Taiwan. It's a real risk. However, investors don't need to fear such an exogenous shock from happening. All they need to do is acknowledge that black swan events can happen, and they can have a big impact on the world economy. It's these low-probability events with huge implications that call for a small gold allocation in every portfolio.

The case for buying gold stocks on the dip

While gold won't make you rich, it can help you dodge and weave through those inevitable negative events that shock markets. By now, investors should know that black swans happen and they should be prepared for them. We've had two in the span of under three years, with the COVID pandemic and Russia's horrific invasion of Ukraine. The global spread of Monkeypox could evolve into a third black swan event. However, for now it seems as though the viral spread is unlikely to reach pandemic territory anytime soon.

My goal is not to scare you from investing. Rather, it's to encourage investors to have some sort of Plan B. When things are looking rosy, gold and other precious metals tend to be looked over. Warren Buffett once slammed the shiny yellow metal as an unproductive asset which, unlike a farm, doesn't create anything over time.

Though gold doesn't pay a dividend, many of its miners do. Though miner share prices are a choppier ride than actual gold, the hedging benefits, and bountiful payouts are more than enough to keep investor portfolios well-compensated over time. And once a black swan does happen, gold can really help keep your portfolio's head above water.

In short, gold isn't meant to make you rich. It's a stabilizer for portfolios that you'll be glad to have when market waters take an unexpected turn.

A miner that's worth its weight in gold

Barrick Gold (TSX:ABX)(NYSE:GOLD) is one gold miner that's in the gutter right now, down more than 50% from its recent high of around $40 per share. The pullback in gold prices hasn't done the stock any favours. However, the magnitude of the decline seems excessive, given gold is just shy of 20% off its peak.

Despite the modest weakness in gold, Barrick still expects to increase gold production. For the second quarter, Barrick clocked in 1 million ounces in gold production, with 120 million pounds of copper production. In Q1 2022, strong production in its Loulo-Gounkoto mine in Mali and the repatriation of revenue from Kibali in the Democratic Republic of Congo helped the company bring in strong operating cash flows of $1 billion and free cash flow of $393 million, enough to pay out its new performance dividend of $0.10, on top of its base dividend of $0.10, for a total dividend of $0.20 for the quarter.

The 2.62% dividend yield is safe (the current payout ratio is at a low 34%) and could be subject to a bit of growth, given the magnitude of free cash flows on the horizon. Barrick's management expects stronger performance in the second half of the year and is on track to meet its 2022 production guidance. Longer-term growth will be driven by large undeveloped assets like Pakistan's Reko Diq copper-gold reserves, active brownfield exploration, and continued acquisitions of Tier 1 assets as it expands its global footprint. Currently, Barrick trades at 6.8 times price-to-cash flow (P/CF), well below the five-year average P/CF of 9.2.

As gold finds its footing, expect Barrick stock to amplify the upward move. Barrick is a well-run company and shares look to have the best risk-reward for your money in many years.

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