Gold & Precious Metals | **Market Outlook** | **Canada**

Barrick Gold: Don't Miss The Forest For The Trees

Dec. 17, 2020 4:22 PM ET16 comments | 29 Likes
by: Taylor Dart

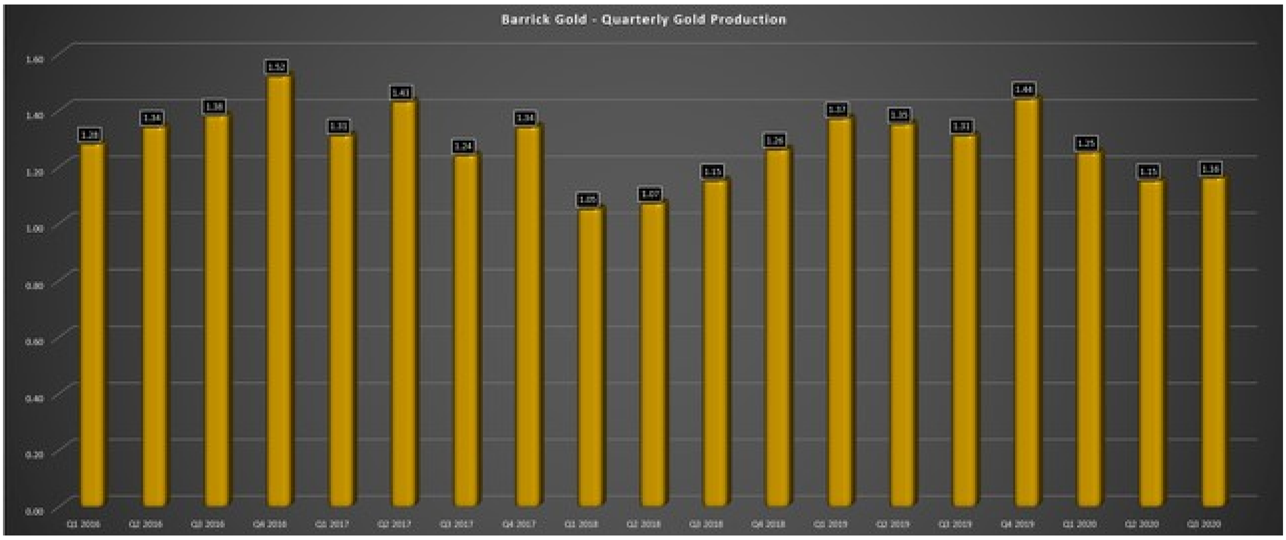
Summary

- Barrick Gold is down more than 25% from its highs after making a new multi-year high earlier this year.
- The company reported Q3 production that was down 11% year-over-year with Porgera offline, but still managed to report a more than 150% increase in quarterly free-cash-flow.
- Currently, the stock is pulling back to its long-term monthly moving average, with no real technical damage done to its long-term chart.
- Therefore, as long as the bulls can hold the $21.80 level on a monthly close, I see no reason to lose sight of the bullish long-term picture here.

It's been a rough few months for the Gold Miners Index (GDX), with several million-ounce producers taking a beating and the Oracle of Omaha's favorite, Barrick Gold (GOLD), not being spared. This is although Barrick Gold reported an exceptional quarter financially with further de-leveraging and record free-cash-flow, as well as a marginal increase to its quarterly dividend. Fortunately, while this correction has been rough for shareholders, it's important to note that no real damage has been done to Barrick's long-term technical picture. Therefore, as long as the bulls can defend the critical $21.80 level on a monthly close, I see no reason to lose sight of the bullish long-term picture.

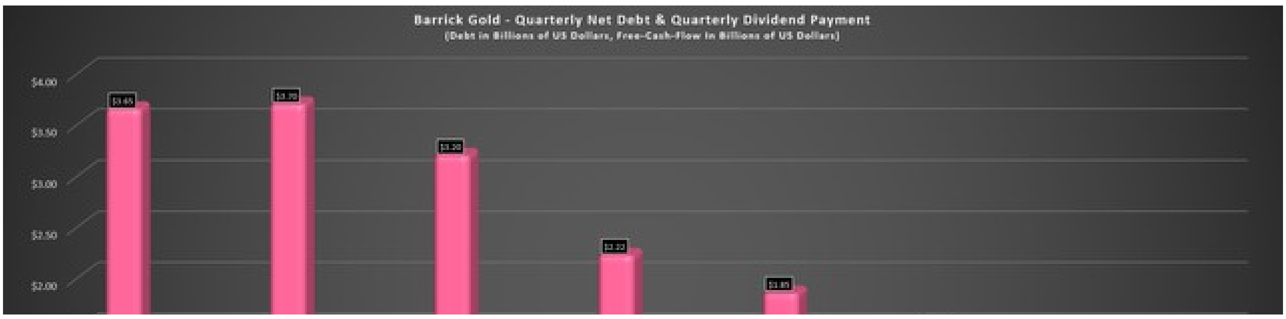
(Source: Company Presentation)

Barrick Gold released its Q3 results in early November and reported quarterly gold production of 1.16 million ounces, down 11% from the 1.31 million ounces produced in the same period last year. Fortunately, the much higher gold (GLD) price more than offset this weakness, with Barrick Gold reporting revenue of $3.54 billion, an increase of 32% year-over-year. Meanwhile, free-cash-flow surged to a record $1.3 billion, up 151% year-over-year, with the senior producer enjoying a new multi-year high for margins. Given the outstanding results, Barrick elected to raise its quarterly dividend to $0.09 per share, translating to an annual dividend of $0.36 or roughly 1.50% at current levels.



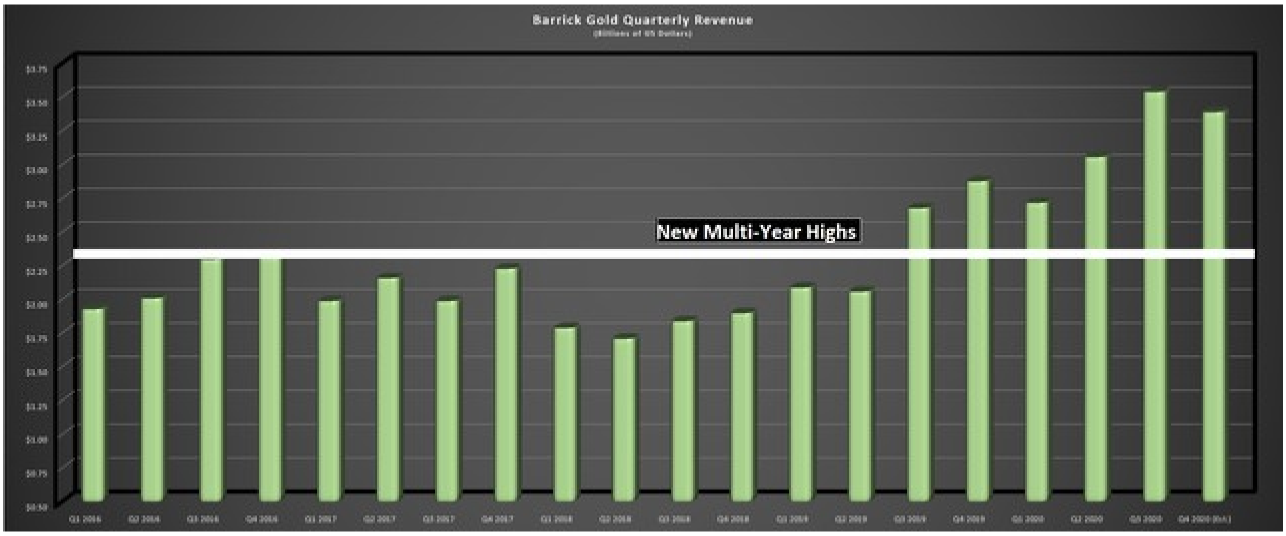
(Source: Author's Chart)

However, despite these impressive results, the temporary loss of Porgera as a producing asset overshadowed the Q3 results, and weakness in the gold price exacerbated selling pressure. This has contributed to the stock slipping more than 25% from its highs, with the stock sitting right on its multi-year breakout level. The Porgera news was quite unfortunate as the Papua New Guinea mine just came off its best year in a decade with 597,000 ounces of gold produced at $1,002/oz. The good news is that even without Porgera, Barrick has continued its trend of rapidly paying down debt, with net debt sitting at just $0.42~ billion, a significant improvement from $3.70 billion just five quarters ago (Q2 2019). This improving balance sheet should provide a foundation for much higher dividends going forward, and I wouldn't be surprised to see Barrick's dividend climb to $0.42 per share by the end of FY2021. Let's take a look at the company's growth metrics below:



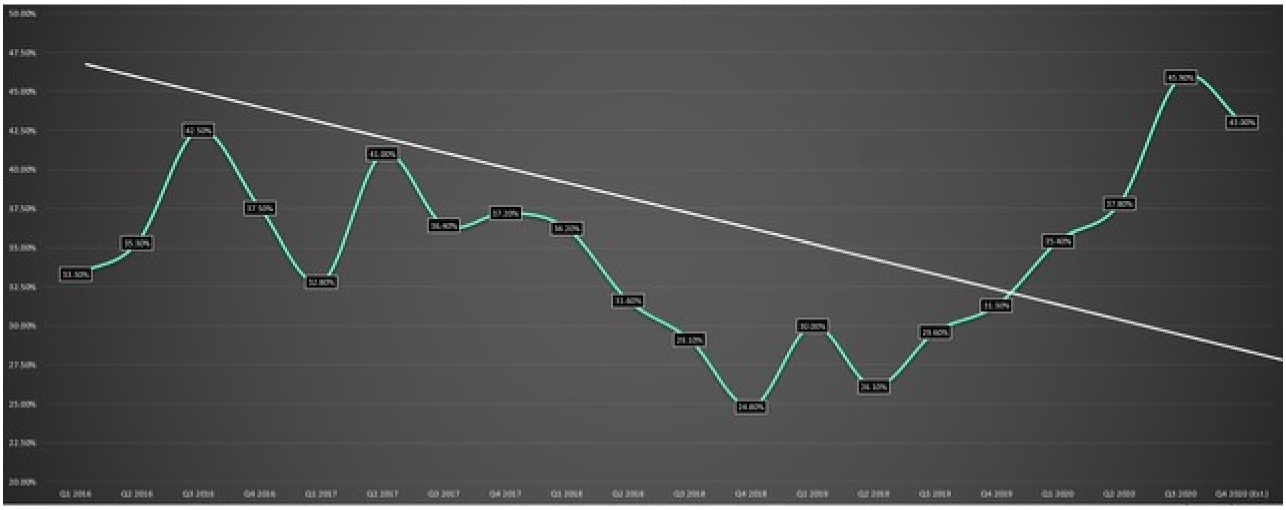
(Source: Author's Chart)

As shown in the chart below, Barrick had an incredible quarter from a revenue standpoint, with revenue up 32% year-over-year and hitting a new multi-year high. This was driven by a higher average realized gold selling price and higher copper prices and offset by an 11% drop in production year-over-year without Porgera online. As it stands, Q4 revenue is expected to increase by over 20% year-over-year, with estimates currently sitting just above $3.4~ billion. This will translate to another quarter of 20% plus revenue growth, and it's worth noting that Barrick is lapping 51% growth in the same period last year, so this is an impressive feat due to the tough year-over-year comps. It's worth noting that if this near-parabolic rise in copper prices continues, we could see Barrick beat these estimates of $3.4 billion with roughly 100 million pounds of copper production per quarter from the company's three copper assets.



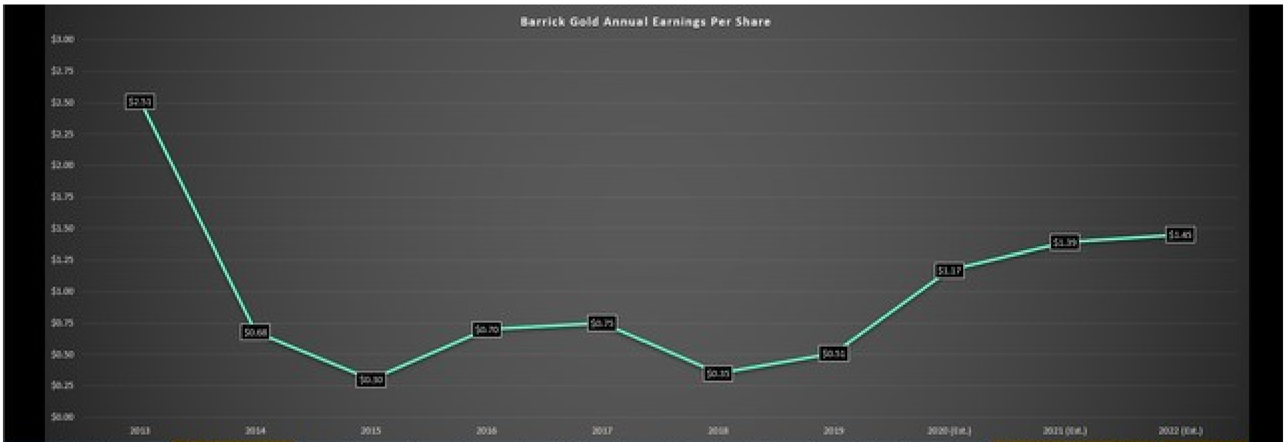
(Source: Author's Chart)

Moving over to gross margins, we've seen a strong breakout here as well. As shown in the chart below, gross margins hit a new multi-year high last quarter of 45.90%, up more than 1600 basis points from the 29.3% in Q3 2019. This was attributed to a more than 20% increase in the price of gold, and costs that have remained below the industry average for Barrick (Q3 2020: $966/oz). This combination of massive gross margin expansion and a multi-year high for revenue is what's powering an impressive earnings trend. Unfortunately, annual EPS estimates have slid from their highs recently, but FY2020 estimates are still sitting at $1.17.



(Source: YCharts.com, Author's Chart)

As shown in the chart below, Barrick is on track to report $1.17 in annual EPS this year, which will mark an earnings breakout year for the stock. This is a very bullish development for the multi-million-ounce producer, denoting a positive change in the business. In Barrick's case, this is higher gold prices, higher copper prices while maintaining similar production levels. If we look ahead to FY2021 annual EPS estimates, they're currently sitting at $1.39, which would translate to just an 18% growth rate year-over-year. However, it's worth noting that Barrick will be lapping a year of triple-digit growth, so this is why the FY2021 growth rate is relatively low compared to peers. If we could see a reinstatement of Barrick's special mining lease in Papua New Guinea, we would certainly see a significant beat on the current estimates. For now, efforts are underway for a new partnership as talks have restarted.

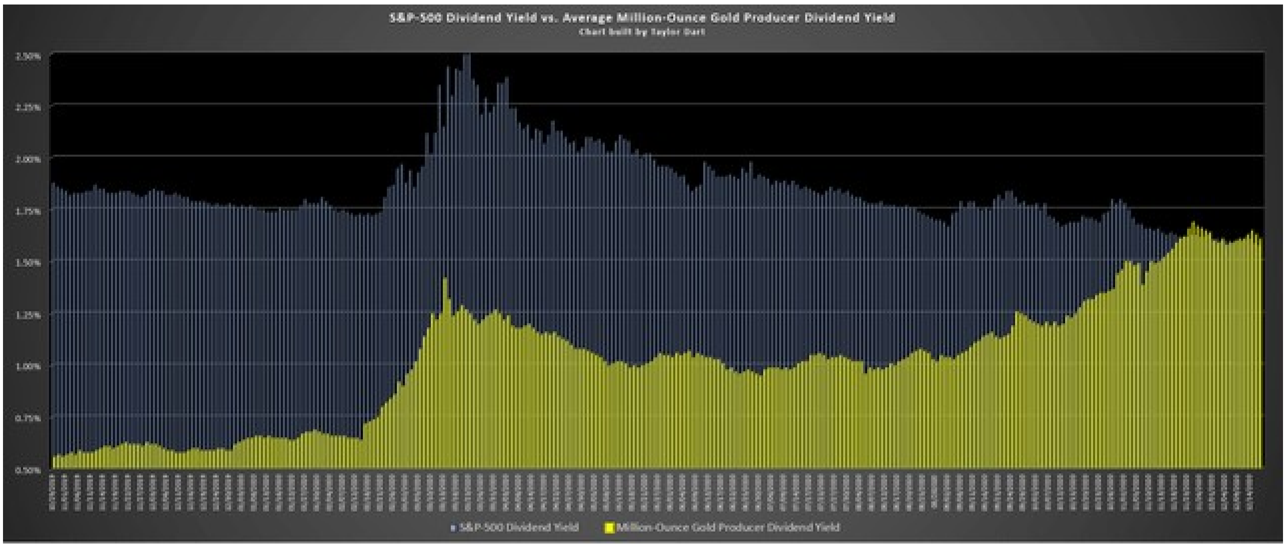


Company	Est. = Estimates	2013	2014	2015	2016	2017	2018	2019	2020 (Est.)	2021 (Est.)	2022 (Est.)
Barrick Gold (GOLD)	Earnings Per Share	$2.51	$0.68	$0.30	$0.70	$0.75	$0.35	$0.51	$1.17	$1.39	$1.45

(Source: YCharts.com, Author's Chart)

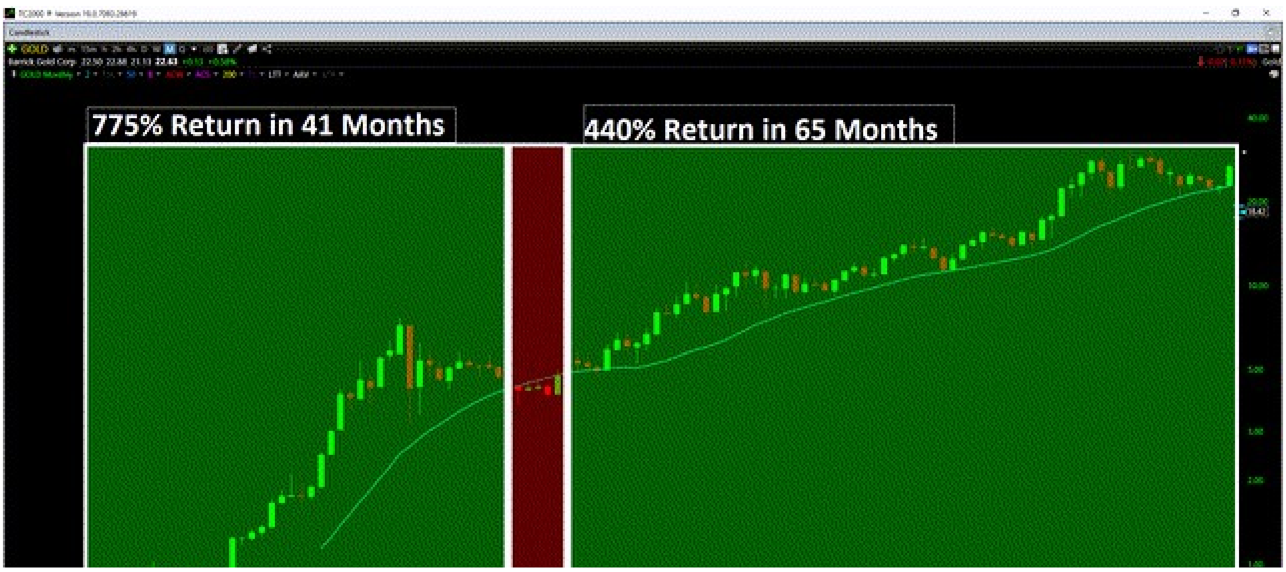
So, is there anything negative about Barrick?

The only negative I see with Barrick Gold is that the dividend is quite a bit lower than other million-ounce producers, with Barrick's current dividend sitting near 1.50%, while the average million-ounce producer is paying a dividend of above 1.60%. Given that Barrick is the 2nd largest gold producer worldwide next to Newmont (NEM), we would expect Barrick's dividend to be above the average as most million-ounce producers reside in the 1.1 million to 2.0 million ounce range. Therefore, while Barrick certainly has exceptional growth metrics and is on track for a bullish earnings breakout, the company does not **currently** pay an attractive yield relative to peers. This could change when the company's debt is fully paid down, but for now, Newmont is paying a 75% higher yield than Barrick of 2.65%. Let's take a look at the technical picture:



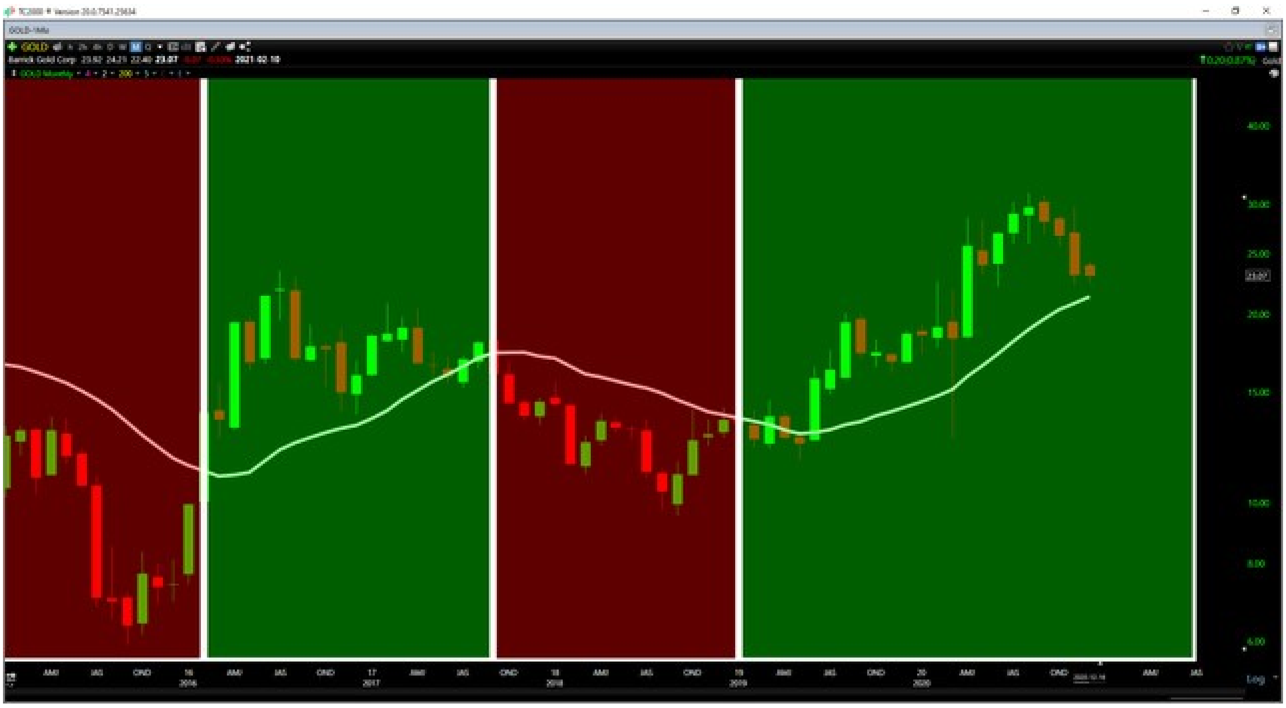
(Source: Author's Chart)

As shown below, Barrick tends to perform best when it's above its key monthly moving average (teal line), with an example from the 1980s shown below. If we look at the chart below, we can see that Barrick gained an incredible 700% return in less than four years in the 1980s and then followed it up with a nearly 450% return in less than six years just a year later. During these periods, Barrick remained above its key monthly moving average, as displayed by the green zones below. Therefore, whether the fundamental picture is bullish or not, investors ideally want to see Barrick above this key level.



(Source: TC2000.com)

Currently, Barrick has pulled back to this key monthly moving average and is sitting just 6% above it as we head into year-end. This is a pivotal level for the stock, and if this truly is a bull market for Barrick, the stock should hold this level with ease. In fact, a breakdown at this level would be a red flag as the stock has not broken this level very often in bull markets. For this reason, investors should be watching the $21.80 level closely. The good news is that while this correction has been violent, zero technical damage has been inflicted to Barrick's long-term technical picture, with the stock still holding this key area. During bull markets, this has typically been a buying opportunity. This suggests that any dips below $22.00 would be very low-risk buying opportunities.



(Source: TC2000.com)

While this recent correction in Barrick has been quite nasty, it's important not to miss the forest for the trees. Currently, Barrick is pulling back right near its key long-term moving average, an area that has typically been supported in bull markets. *Meanwhile, the fundamentals for the stock have not been better in years, with gross margins and free-cash-flow both surging last quarter. Therefore, for investors interested in Barrick, a dip below $22.00 would provide a low-risk buying opportunity. For now, I continue to prefer the similar growth that Newmont offers a much higher yield, so that is where I am invested.*

Disclosure: I am/we are long GLD, NEM. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: Disclaimer: Taylor Dart is not a Registered Investment Advisor or Financial Planner. This writing is for informational purposes only. It does not constitute an offer to sell, a solicitation to buy, or a recommendation regarding any securities transaction. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Taylor Dart expressly disclaims all liability in respect to actions taken based on any or all of the information on this writing.

Comments (16)

jamerson

In my opinion, Barrick's quest to acquire equitable properties has been inspiring, but may not be a good investment for production in the U.S. soon. HOPE I'm wrong.

18 Dec 2020, 01:19 AM

Valueish_Investor

Great informative article Taylor. When you do a follow-on please cover the jurisdictional risk for about 50% of their proven reserves - what happens if their mining concessions get renegotiated in PNG, DRC...and other strange zip codes? Not easy places to do business in and wont be the first time that this would happen in these countries....just a thought!

17 Dec 2020, 10:54 PM

wolfetd

GOLD’s third world mines are off-putting.

17 Dec 2020, 10:20 PM

blackberryman

Thanks for your analysis, Taylor. I hold a small position with GOLD. It is not my top pick, but I am hopeful that it will soon rise along with the rest of the sector. Appreciate your work in this sector. You are the best.

17 Dec 2020, 10:01 PM

Miners to the Moon

Fine discussion, @Taylor Dart . I have a small position (relative to my Big 3 of NEM, AEM, and PAAS). My only question is how long GOLD will be “dead money”

17 Dec 2020, 09:08 PM

borntosue2

Premium

Taylor, another author on SA dinged Barrick for its long term decrease in production and reserves and failure to replace them. Your article does not mention that (other than Porgera). Thanks for any comment.

A subscriber and long GOLD.

17 Dec 2020, 09:02 PM

seekir

@borntosue2

I agree with you. Barrick is the worst of the big gold miners. Equinox, Yamana or even Kirkland Lake Gold is a better choice.

17 Dec 2020, 11:31 PM

Downeast

Appreciate your work.

I finally got out of MUX after reading several of your articles and established long positions in NEM and GOLD this year. I am doing well so far with a lot less stress ;)

And guess who diluted their shares again...

Cheers

17 Dec 2020, 07:59 PM

motto5448

my favorite long right now.

17 Dec 2020, 07:16 PM

Chuck53

One of the worst investments on the planet.

17 Dec 2020, 04:05 PM

x655321

@Chuck53 - Why?

17 Dec 2020, 04:13 PM

Easy Al

@x655321 Because of the egregious hedge conduct of Barrick in 1990s, gold bugs hate it. (edited)

17 Dec 2020, 04:35 PM

CaptTurbo

I'm very happy with my investment! I'm up 114.14%. I say I say ya gotta learn when to buy things boy. (Foghorn Leghorn)

17 Dec 2020, 04:38 PM

Taylor Dart

Contributor **Premium**

Author's reply » Cyclical stocks generally aren't very good investments. If looking for returns, that's where growth comes in. Cyclicals are meant to be held during bull markets and underweighted or completely sold out when bull markets end. In addition, they can be used as a hedge, but if they're a hedge, you're not looking for returns, you're catering that portion of the portfolio to hedging excessive exposure in other areas and to smooth things out in a long-term account.

Barrick is up 5000% since 1984, SPX up 2200%. It depends where you start from. But yes, if one bought in 2010 and then held all the way down, then it wasn't much of an investment. There was 20 years to make exceptional money in Barrick between 1980 and 2000. If one didn't underweight the stock above $50.00 in 2000, or again above $50.00 in 2010, it's their own problem it's been 'the worst investment on the planet'. The same can be said for any cyclical stock if you buy at a cyclical peak. XOM or TECK have been just as terrible of investments.

17 Dec 2020, 04:40 PM

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goldstd69

New management is struggling to correct the huge mess...a big black eye for foreign miners in third world countries...but at least Barrick is trying.

17 Dec 2020, 04:46 PM

Taylor Dart

Contributor **Premium**

Author’s reply » above $30.00 in 2000, or above $50.00 in 2010.****

17 Dec 2020, 04:53 PM