



This Gold Miner Is a Must-Buy Even After its Latest Rally

Description

After surging by 124% for the year to date, some pundits are claiming that intermediate gold miner **Kirkland Lake Gold Ltd.** (TSX:KL) is overvalued. While the miner's gains have been extraordinary, there are signs that Kirkland Lake has further gains ahead because the market has failed to adequately recognize the true potential of its core assets.

Now what?

Gold's recent sharp appreciation because of tensions on the Korean Peninsula is certainly a key reason for Kirkland Lake's latest marked increase in value but it is not the only reason. The late 2016 business combination with Newmarket Gold Inc. brought together two intermediate miners that owned and operated some of the highest-quality gold mines in the industry.

Kirkland Lake's flagship asset is its Macassa underground gold mine, which has gold reserves of two million ounces with an impressive average grade of almost 21 grams of gold per tonne of ore. That high-quality ore sees it operating with relatively low all-in sustaining costs of US\$793 per ounce of gold produced.

More importantly, considering that this is Kirkland Lake's flagship asset, production keeps growing, having risen by 17% year over year for the second quarter alone.

This growth should continue because of the substantial mine development and drilling program that Kirkland Lake has established at Macassa, which keeps yielding positive results. Drilling during the second quarter uncovered high-grade mineralization in a newly discovered gold system in the southern part of the mine complex.

The other jewel in Kirkland Lake's crown is the Australian Fosterville mine. It achieved record production during the second quarter of 2017 when gold production was a massive 67% higher than the previous record achieved for the first quarter 2017. These solid operational results will continue because of the significant drilling program operating at the mine, which includes both underground and surface drilling targets. The program has identified substantial zones of high-grade gold mineralization, which should eventually lead to an upward revision of reserves estimates for the mine.

In July, Kirkland Lake reported a 110% increase in underground gold reserves at the mine and an 83% lift in the average ore grade to a notable 17.9 grams of gold per tonne of ore.

While these are crucial developments for what is a world-class mine, it is the mine's low costs that make it stand out. For the second quarter, Fosterville reported AISCs of a mere US\$388 per ounce of gold mined — some of the lowest costs of any operational underground gold mine in the world. Along with the ongoing ramp-up in production at the mine, that makes Fosterville a crucial asset for Kirkland Lake, which will drive further solid results for the miner.

While the ongoing development of its core assets is an important means of unlocking more value for investors, Kirkland Lake is also focused on expanding its operations through acquisitions.

Earlier this month, Kirkland Lake completed a \$56 million equity investment in **Novo Resources Corp.** (TSX:NVO), which saw it acquire an additional 14,000 shares, giving Kirkland Lake 18% of the junior explorer's outstanding shares. Novo Resources is evaluating, acquiring, and exploring gold properties in Western Australia with a specific focus on the Karratha Gold Project, which recently reported some encouraging exploration results.

So what?

In an operating environment where gold has broken through the psychologically important US\$1,300 per ounce barrier and keeps rising, Kirkland Lake's margins and profitability will continue to grow. In conjunction with its recently inaugurated dividend payment, which yields 0.25%, and high-quality assets, Kirkland Lake is an attractive means of profiting from the new gold bull market and hedging against rising economic and political uncertainty.

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