



Will This Golden Stock Continue Beating the Market?

Description

When it comes to gold stocks, the first names that tend to come to mind are the large players: **Barrick Gold Corp.** ([TSX:ABX](#))(NYSE:ABX) and **Goldcorp Inc.** (TSX:G)(NYSE:GG). Yet they haven't done well; their stocks are still substantially lower than they were five years ago. Barrick Gold is ~40% lower, and Goldcorp is ~45% lower.

What about from a year ago? Barrick Gold is ~38% lower, and Goldcorp is ~17% lower. So, I was very surprised when I found out that the stock of a smaller gold producer, **Kirkland Lake Gold Ltd.** (TSX:KL)(NYSE:KL), has more than doubled in the last 12 months!

About Kirkland Lake Gold

Kirkland Lake Gold is a mid-cap gold producer with quality assets in Canada and Australia. Its consolidated mineral reserves increased 36% in 2017. In the same year, the company produced ~596,400 ounces of gold. This year, the company forecasts it will produce 620,000 ounces of gold and has its eyes set on producing 1,000,000 ounces in the future.



Why has Kirkland Lake Gold done so well?

The management at Kirkland Lake Gold seems to underpromise and overdeliver. Last year, the management improved its guidance three times!

The initial guidance for its operating cash costs and all-in sustaining costs were \$625-670 and \$950-1,000, respectively. The actual results had profound improvements. Specifically, they were \$481 per ounce and \$812 per ounce, respectively.

Kirkland Lake Gold has [a strong financial position](#). In 2017, the company generated \$178 million in free cash flow and has very little debt. Moreover, at the end of 2017, it had \$232 million in cash and cash equivalents.

At \$20.30 per share, Kirkland Lake Gold trades at a price-to-earnings ratio of 20.3, coincidentally. A big part of what gives the company a high multiple is that it has experienced strong earnings and free cash flow growth. In 2017, it generated 237% higher earnings and 56% higher free cash flow than it did in 2016.

Trading at a high multiple, Kirkland Lake Gold's strong growth is expected to continue this year. For example, growth can come from the gold producer's commitment to spend \$60-75 million for further exploration in Australia. Management forecasted lower operating cash costs and all-in sustaining costs of \$425-450 per ounce and \$750-800 per ounce for this year, which should help with its profitability.

Investor takeaway

Kirkland Lake Gold [beat the market](#) by a great deal last year by doubling its shareholders' money. Given the company's strong management, stellar recent performance, and positive forecasts, the stock could very well beat the market again this year.

However, don't expect the stock to double, as more investors have jumped in to the name, and the company's multiples have expanded. That said, if the company executes well and gold prices cooperate, Kirkland Lake Gold can trade 15-35% higher a year from now.

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