



Is Now the Time to Bet on Precious Metals and Kirkland Lake Gold Ltd. (TSX:KL)?

Description

Precious metals continue to gyrate wildly because of a mix of positive and negative catalysts. While [rising geopolitical tensions](#) and fears of another economic crisis are supporting firmer prices, a stronger U.S. dollar and better than expected global growth are weighing on prices. However, there are signs that gold will remain firm for at least the foreseeable future and could be due for another rally. That is good news for gold miners such as **Kirkland Lake Gold Ltd.** (TSX:KL)(NYSE:KL), which is among the best ways to gain exposure to gold.

Now what?

Increased geopolitical tensions, notably on the Korean Peninsula and in the Middle East, have the potential to significantly bolster the price of gold, because it is viewed by many as the ultimate safe-haven asset. For over a millennium, during times of crisis, the lustrous yellow metal has retained its value, so typically, when a geopolitical economic crisis emerges, stock investors stampede for the exits while seeking to boost their holdings of gold.

There is also the looming threat of a global trade war should President Trump continue to implement protectionist policies and target imports from China. That would impact economic growth and could precipitate another financial crisis, which would see investors move from growth assets such as stocks to gold. If that occurred, gold would rally substantially, giving precious metals miners a solid lift.

Nonetheless, with gold trading at close to US\$1,300 per ounce, the outlook for miners is [optimistic](#), especially for those with high-quality, low-cost operations, like Kirkland Lake, which allow it to unlock considerable value for investors.

The miner owns and operates the Macassa mine; with an average ore grade of almost 21 grams of gold per tonne of ore, Macassa is regarded to be one of the highest-grade underground gold mines operating anywhere in the world. Kirkland Lake also owns the Fosterville Mine located in southeastern Australia, which has been a primary driver of its significant production and earnings growth. According to its latest reserves reports, that mine has a stunning grade of 23.8 grams of gold per tonne of ore,

which is more than double what it had been a year earlier.

Those two assets are responsible for over 70% of Kirkland Lake's production, which, in combination with the miner's other assets, give it total reserves of 4.6 million gold ounces.

The potential held by Kirkland Lake's properties is underscored by the 36% year-over-year increase in gold reserves for the mineral reserve estimate completed in December 2017.

These high ore grades mean that the miner has low cash costs, which, for the first quarter, came to US\$447 per ounce produced. They also mean that the sustaining and development capital required for those mines is low, endowing Kirkland Lake with low all-in sustaining costs (AISCs) of US\$833 per ounce, which was 5% lower year over year.

These attributes all contributed to Kirkland Lake's solid first-quarter 2018 results. Key among them is a 13% year-over-year increase in gold production, which, along with higher gold and reduced costs, caused earnings per share to be an impressive four times higher than a year earlier.

Those strong results leave the miner on track to achieve its 2018 guidance, where it has predicted that gold production will rise by 4% compared to 2017 to 620,000 ounces. That — along with lower AISCs and firmer gold — will give Kirkland Lake's earnings a healthy bump.

So what?

Even after gold's latest pullback, Kirkland Lake is an attractively valued means of gaining exposure to the yellow metal and offers considerable potential upside for investors. This makes it a compelling addition to any portfolio as a means of hedging against uncertainty in a global economy riven with geopolitical and economic fissures.

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