



Why 2019 Will Be Kirkland Lake Gold Ltd's (TSX:KL) Best Year Yet

Description

Kirkland Lake Gold (TSX:KL)(NYSE:KL) stock is on a tear. Since the summer of 2015, shares are up more than 2,000%, rising every single year despite volatile swings in underlying commodity prices.

In the fourth quarter of 2018, Kirkland reported record production of 231,000 ounces, roughly 30% higher than its previous record of 180,000 ounces the quarter before. Full-year production also set records at 723,000 ounces — a 20% rise from 2017 levels.

Strong results allowed the company to do something few miners have been able to do in recent years: increase the dividend. In December, it increased its payout to \$0.04 per share, per quarter. While the dividend yield is just 0.5%, it's an impressive move considering the mining industry has a well-deserved reputation for squandering shareholder capital. Paying some out to investors removes part of that risk.

The best days are yet to come, too. Looking at 2019, there's plenty of reason to believe it will be Kirkland's best year yet.

Higher production, higher profits

This year, Kirkland's management team forecasts production of 740,000-800,000 ounces. It's also targeting 10-15% of annual production growth over the next three years. That should allow Kirkland to hit nearly one million ounces by 2021.

Additionally, costs are falling. While this should be expected in an industry largely driven by scale, it's not always a given. Plenty of miners have faced cost overruns that ruined margin expansion or redirected profits into less-profitable ventures. All-in sustaining costs per ounce for Kirkland should be around \$650 in 2019. In 2018, the same costs were around \$740 per ounce.

Last quarter, the company posted a net profit of \$56 million. On an annualized basis, that's more than \$200 million in earnings. It's a strong likelihood that this will be the baseline earnings potential for the business, considering that revenues and profit margin should scale for years to come.

Falling capital intensity will put cash flow on steroids

There's a secret ingredient that few investors are talking about, but it has the potential to scale massive amounts of free cash flow from rising profits. Boosting production from its three largest mines has elevated capital expenditures in each of the last four years. But in 2019, management expects capital expenditures to peak. Starting in 2020, it anticipates the business to become less and less cash intensive.

Sustaining capital expenditures are only about \$160 million, while growth-related capital expenditures also total around \$160 million. Falling capital expenditures could provide Kirkland with \$100 million in incremental free cash flow by 2021. That's nearly \$0.50 per share, which would allow the company to more than triple its dividend!

Get behind this management team

Kirkland's multi-year advantages stem from its savvy management team. For example, in 2018, the company was spending \$130 per ounce in production in exploration costs. Its peer group, for comparison, spent just \$50 per ounce in production.

Yet Kirkland's team was able to generate impressive returns from its outsized spending. Recently, its average discovery cost (the cost to identify new reserves) was around \$8 per ounce. Its peer group, meanwhile, averages around \$30 per ounce.

Since its current management team took over, Kirkland has consistently posted higher assets, profits, reserves, and cash flow, allowing it to initiate a growing dividend and a share-repurchase program. In an industry rife with a "growth-at-all-costs" mindset, Kirkland's management is a breath of fresh air.

While the stock will still be heavily impacted by swings in gold prices, Kirkland is your best long-term bet within a volatile industry.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

PARTNER-FEEDS

1. Msn
2. Newscred

3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date

2025/07/21

Date Created

2019/01/11

Author

rvanzo

default watermark

default watermark