



## Kirkland Lake Gold (TSX:KL) Q1 Results: What We Learned

### Description

While quarterly conference calls can be company-specific, there's huge value in paying attention to the information that management teams reveal, even if you're not invested in their stocks.

Earlier this month, **Kirkland Lake Gold Ltd** (TSX:KL)(NYSE:KL) revealed its first- quarter results for 2019. Executives jumped on a call with analysts to discuss what happened and why.

If you're invested in any gold stock, especially Kirkland Lake, you'll want to read these highlights.

### Record production, falling costs

Gold production last quarter hit 231,900 ounces, a company record. Management had been guiding for full-year output of 920,000 to one million ounces.

Annualized, Kirkland Lakes quarterly output is on pace for 927,600 ounces, which is at the low end of the expected range, but further production boosts should be anticipated as the year continues.

On the cost end of the equation, all-in sustaining costs per ounce—one of the most important ways to measure mining profitability—fell to \$560 per ounce, another record.

Management reiterated its full-year all-in sustaining cost range of \$520 to \$560 per ounce, so further reductions should be realized as production grows.

### On the right path

Rising revenues and falling costs have resulted in ramping profits and cash flow.

“From earnings per share perspective, we had record net earnings of \$112 million or \$0.53 a share, and record free cash flow of \$93.1 million,” noted CEO Tony Makuch.

Kirkland Lake is making sure to return these profits to shareholders rather than continue to grow at all

costs—that's a mistake most miners seem to make these days.

In 2017, the quarterly dividend was just \$0.01 per share. Over the next 24 months, management increased the payout by 600% to \$0.06 per share.

On an annualized basis, Kirkland Gold now yields 0.5%. That's not overly impressive, but it's important to see management raise the dividend in step with earnings and cash flow increases.

## Lessons for the industry

Since 2015, shares of Kirkland Lake have increased by more than 2,500%. **Barrick Gold Corp**, a much more popular stock, has only returned around 70%.

What can Kirkland Lake's history teach us about picking successful gold stocks?

First, pick low-cost producers.

"If we're not industry-leading in terms of first or second, we're definitely in the top 10 in terms of the lowest cost producers in the industry," highlighted Kirkland Lake's CEO.

Having a low cost of production helps in two ways.

First, when gold prices are rising, the company's free cash flow generation will be significantly higher than its peers, allowing it to reinvest in worthy projects, pay down debt, and institute timely dividends and buybacks.

Low costs also insulate the company during times of turmoil. When selling prices crash, high-cost companies need to take on rising debt loads, which can be difficult to pay back even after the market reverses.

If you're picking a gold mining stock for the long haul, keep it simple and pick a low-cost producer.

Kirkland Lake's management team also puts a huge focus on cash flow.

For example, cash flow metrics feature just as prominently in its corporate releases as accounting earnings. Management also breaks down sustaining and growth capital expenditures by specific project.

This level of detail lets investors know that insiders are putting shareholder interests above all else.

Kirkland Gold had a terrific quarter. With a trusted management team, this looks like a stock to continue betting on.

If you stray into other names, be sure to pick low-cost producers that focus on cash flow versus fluffier numbers like GAAP earnings or EBITDA.

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