



Gold Surges to a 5-Year High: Now Is the Time to Buy This Miner

Description

Gold recently surged to a five-year high of over US\$1,406 per ounce and appears positioned to move higher, as growing fears of a trade war and a softer economy spark a flight to safety among investors. This has been a tremendous boon for gold miners with many making strong gains in recent weeks.

One miner I have been particularly bullish on for some time is **Kirkland Lake Gold** (TSX:KL)(NYSE:KL), which has gained a whopping 105% over the last year. Had investors bought the miner when I [wrote on it](#) in mid-2017, they would have made a total return of 338% which is 117% on an annualized basis. Despite that extremely impressive performance there are signs of further significant upside ahead.

Record results

Kirkland Lake reported some stellar [first-quarter](#) 2019 results. These included a notable 57% year-over-year increase in gold production to 231,879 ounces and improved recovery rates as well as ore grades, which all led to lower costs and greater profitability. All-in sustaining costs (AISCs) fell by a very healthy 33% year over year to US\$560 per ounce sold, which are some of the lowest in the industry. That saw adjusted net earnings more than double to US\$0.53 compared to US\$0.25 a year earlier.

The record earnings and free cash reported for the first quarter saw Kirkland Lake hike its dividend by 34% to US\$0.04 per quarter, or US\$0.16 per share annually, giving it a yield of 0.4%.

Kirkland Lake's gold reserves also continue to grow, reaching 5.75 million gold equivalent ounces by the end of 2018, which was 4% higher than a year earlier. Those reserves have a notable average grade of 15.8 grams of gold per tonne of ore (g/t), which is significantly higher than the 11.1 g/t reported at the end of 2017.

Such notable reserve growth coupled with significantly improved ore grades bodes well for further production growth and lower AISCs, especially with Kirkland Lake predicting that 2019 gold output will expand by over 30% year over year.

Growing reserves and production

A key driver of these improvements are Kirkland Lake's high-quality gold-mining assets, notably its Macassa and Fosterville mines, which are responsible for over 80% of its gold production. Its ongoing development work at the flagship Fosterville mine, located in the stable mining-friendly jurisdiction of Australia, will continue to unlock considerable value. Production at the mine is expected to reach over 600,000 gold ounces annually, while operating cash costs are forecast to be a very low US\$150 or less per ounce extracted.

When these factors are considered along with Fosterville's history of reserves increase, with gold reserves by the end of 2018 growing by an impressive 59% year over year and its industry leading average ore grade of 31 g/t, it is easy to see it driving further growth. Fosterville is, in fact, a leading world-class asset, which possesses significant exploration upside, boding well for further improvements in reserves, ore grades, production, and operating costs.

Foolish takeaway

Kirkland Lake has delivered a sizzling-gains for investors. While such strong returns would normally mean that there may be little upside left, the quality of its core Macassa and Fosterville mines coupled with growing production, steadily improving ore grades, and higher reserves all point to considerable additional upside ahead. For these reasons, Kirkland Lake is poised to deliver further value and will continue to rise in value, especially with gold now rallying.

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