TFSA Investors: This Gold Stock Could Be Your Secret Weapon for a Recession

Description

Gold is on the rise once again. Up 5% over the past week and 18% over the past six months, the commodity is rising as nearly everything else goes sideways on recession worries. The recent activity in gold is consistent with historical trends.

When the economy gets sluggish, gold tends to rally, as investors seek the safety of a hard asset whose value isn't tied to the soundness of the broader financial system.

Over the summer, the U.S. 2-10 year yield curve inverted, leading to renewed fears of a looming recession. Although other economic indicators suggest otherwise, it may be wise for investors to prepare at least part of their portfolios for a recession.

Gold can be a great part of a recession-proof portfolio due to its tendency to rise when other asset classes are falling. If you're looking to get your gold exposure through stocks, there is one Canadian company that has beaten the market consistently over the past three years and has a good chance of further gains with a rising price of gold.

Kirkland Lake Gold

Kirkland Lake Gold (TSX:KL)(NYSE:KL) is a Canadian mining company that extracts gold in Canada and Australia. The company has mined about 450,000 ounces of gold this year and aims to mine 920,000 to a million for the full year.

In its most recent quarter, the company boosted its revenue by 31% and net income by 69%, while reducing its cost per ounce mined by 29%. These metrics alone are encouraging. However, there's another factor that makes Kirkland Lake a better bet than many other **TSX** gold stocks.

Why it's better than your average gold stock

Many TSX gold stocks suffer from over-leveraged balance sheets. In 2011 and 2012, when gold was extremely strong, they borrowed copious amounts of money to finance new exploration projects.

However, in late 2012, the price of gold started falling, and many gold companies were left with debt that they had trouble servicing. **Barrick Gold**, for example, was left with over $22 billion in liabilities, and although the company has been focusing on paying down debt, it still has enormous interest payments to service.

As a younger company, Kirkland Lake has managed to avoid an excessive debt burden. With $2 billion in assets to just $250 million in liabilities, its debt load is tiny compared to equity. This means that the company is free to pump out cash flow from its mining operations without being burdened by interest payments.

How far can it go?

Having established that Kirkland Lake gold is a profitable and financially sound gold miner, we need to ask how much upside its stock has.

The answer is, potentially, quite a bit. Even with its 69% year-over-year earnings growth, the company has a P/E ratio of just 30– that's low for a company with such strong growth. The company's price-to-book ratio of nine is a little on the high side, but again, growth needs to be taken into account when considering such metrics.

Additionally, Kirkland Lake is constantly reducing its mining cost at a time when gold is rising, which is a perfect recipe for rising profits. Overall, it's one of the best gold stocks on the TSX.

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