What Agnico Eagle (TSX:AEM) Earnings Say About the Rest of the Gold Mining Industry

Description

Gold has been on a major bull run this year and the increase in price is sure to bring great profitability to gold miners.

The run up in gold's price began at the beginning of June, and the company has since taken some time to find its way to each gold miner's bottom line.

Now that earnings season is upon us for the third quarter, we can finally get a glimpse into how much of a difference the increase in gold price is actually having on companies.

Last week **Agnico Eagle Mines Ltd** (TSX:AEM)(NYSE:AEM) was one of the first major gold companies to report its financials this earnings season, and the results were just as strong as expected.

Investors were curious to see how it would perform and how it would take advantage of higher gold prices; Agnico Eagle did just that.

For the third quarter of 2019, Agnico had an average realised gold price of $1,480, versus last year's third quarter realized price of $1,204 for an increase of nearly 23%.

Year-to-date it's less of a difference, albeit still significant; YTD 2019, the average realised gold price has been $1,374 versus last year's YTD realised price at the end of the third quarter at $1,277.

Agnico's record gold production in the third quarter also helped; it produced over 475,000 ounces at all-in sustaining costs (AISC) of just $903.

This led to revenue of $683 million and earnings of $77 million or $0.32 per share for the third quarter. Its operating cash flow per share was $1.47 in the third quarter compared to last year's operating cash flow per share of just $0.59.

The major increase in operating cash flow comes as Agnico completes its pre-production construction program at its Amarug mine in Nunavut. The construction program began in 2017 and was the largest ever capital spending program in the company's history.

It was a great quarter for Agnico, which even managed to increase its quarterly dividend by 40%, from $0.50 a year to $0.70 a year, which yields just under 1% today.

The earnings were very strong and are a result of a combination between quality management and execution along with the realisation of higher gold prices.

This bodes well for the rest of the sector, especially those gold miners with low production costs capable of capturing a much higher margin.

Another stock you may want to add to your portfolio is **Kirkland Lake Gold Ltd** (TSX:KL)(NYSE:KL).

Kirkland has some of the lowest production costs in the world. Last year its total AISC for the year was just $685, and it is targeting this year's AISC to be in the $520-$560 range. This gives Kirkland a huge margin, especially as it captures more revenue due to the run-up in gold prices.

Its production is increasing rapidly, with numbers up 43% higher than last year's year-to-date production at the end of the second quarter.

Assuming Kirkland sticks to its guidance; this year's production will be significantly larger than 2018's numbers, and with 25% lower AISC per ounce.

Bottom line

Most gold companies will have strong earnings this quarter as the increase to the price of gold has been significant in 2019. Thus, for investors interested in gold stocks, many will do well this year and into next as long as they're top-quality operators that can capture the full increase in price.

However, if you're seeking a stock that you know will perform well, Agnico or Kirkland are two of the best in the industry.

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danieldacosta