



Latest News Is Another Reason to Buy Kirkland Lake Gold (TSX:KL)

Description

Leading gold miner **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) has gained a whopping 58% since the start of 2019 and is ready to soar higher as we enter 2020, making now the time to buy. The miner not only stands to benefit from renewed safe-haven demand for gold, which saw the yellow metal gain over 1% over the last week but also the planned acquisition of [attractively valued Detour Gold](#) (TSX:DGC). This deal will give Kirkland Lake a new world-class asset: the Detour Lake Mine, which is one of Canada's largest gold mines.

Attractive acquisition

The transaction adds proven and probable gold reserves of 15.4 million ounces to Kirkland Lake's existing 5.8 million ounces, giving it combined gold reserves of 21.2 million ounces. This significant increase in Kirkland Lake's gold reserves boosts its production life and will add around production of around 600,000 gold ounces annually, with Detour targeting 2019 gold output of 590,000-605,000 ounces, to Kirkland Lake's production. That will give the combined entity annual gold production of up to 1.6 million ounces based on Kirkland Lake's 2019 forecast gold output of 950,000 to one million ounces.

There is also considerable exploration upside at the Detour Lake property, enhancing Kirkland Lake's opportunity to continue growing reserves as well as production through exploration and development drilling.

The deal has been unanimously approved by both boards, making it likely that it will be completed, particularly given the problem experienced by Detour Gold over the last two years. On completion, it will cement Kirkland Lake's position as a senior gold miner, give its earnings a solid boost, with analyst consensus free cash flow of US\$700 million, and bolster the combined entities balance sheet, giving cash of US\$630 million.

A key issue that management at Detour Lake has been battling are high operating expenses with all-in sustaining costs (AISCs) of US\$1,100 to US\$1,175 forecast for 2019.

Nonetheless, management at Kirkland Lake has consistently demonstrated that it has the experience to maximize value from quality but troubled assets like the Detour Lake mine. The considerable amount of cash on hand on completion and strong balance sheet ensures that the combined entity will have enough resources and financial flexibility to advance its exploration and mine-development plans, even if gold softens further.

Quality assets

Kirkland Lake is a very attractive play on higher gold. It has two high-quality gold mines: Macassa and Fosterville, which have considerable gold reserves and ore grades of almost 22 grams of gold per tonne of ore (g/t) and 31 g/t, respectively. That not only makes them some of the highest-grade underground gold mines globally, but it means that the cost of extracting the gold is low, because the higher the grade, the more economic it is to extract the precious metal from the surrounding minerals.

Kirkland Lake reported AISCs of US\$584 per gold ounce sold for the first nine months of 2019 and anticipates full-year AISCs of US\$520 to US\$560 per ounce, which are some of the lowest in the industry. That underscores Kirkland Lake's considerable profitability in an operating environment where gold is trading at US\$1,476 per ounce and is expected to rally further.

Improving outlook

Trump's ongoing confrontational trade policy, which saw him recently extend tariffs on steel and aluminium to metals imports from Brazil and Argentina has created considerable uncertainty over the global economic outlook. There are also fears that the president's decision to resolve the ongoing trade conflict with China will take longer than anticipated to resolve and could continue into 2020 and even 2021.

That is further magnifying economic uncertainty, which, along with rising geopolitical risk across the world and renewed concerns of an emerging markets meltdown, has bolstered the attractiveness of gold.

Foolish takeaway

Kirkland Lake remains a highly attractive best-in-class investment for investors seeking to cash in on higher gold. Growing production, a solid balance sheet, high-quality mining assets combined with the improving [outlook for gold](#) and acquisition of Detour Lake will make it a leading gold miner and significantly lift its net asset value and earnings, making now the time to buy.

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Date

2025/08/18

Date Created

2019/12/05

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