



Despite Weaker Gold, Buy This Gold Miner Today

Description

Gold skyrocketed as tensions in the Middle East between the U.S. and Iran boiled over in the wake of airstrikes that caused the death of Iranian General Qasem Soleimani.

As threats of war grew and tensions between Iran and the U.S. ratcheted up to levels not seen for decades, gold soared, reaching a multi-year high of over US\$1,571 per ounce before pulling back to around US\$1,550 an ounce at writing.

While some pundits are claiming that now is the time to buy gold miners because the precious metal is poised to rally once again, there are signs that gold will pull back further.

Gold will soften

This is due to Iran's muted response to the U.S. airstrikes, statements from Teheran that it wishes to avoid war and Trump's call for renewed diplomacy, indicating that war in the region has for now been avoided.

That means the tremendous risk premium that's been priced into gold is overbaked, and the yellow metal's price will deflate further, particularly with the outlook for growth assets such as stocks being more favourable.

For these reasons, it appears that the bullish sentiment surrounding gold is overdone and the yellow metal will fall to below US\$1,500 an ounce, unless there is another major geopolitical incident. While weaker gold is on the way, the metal remains a solid hedge against global economic and geopolitical uncertainty, which remains high.

Hedge against uncertainty

A best-in-class miner that should be in every portfolio is **Kirkland Lake** (TSX:KL)(NYSE:KL), which has reported some outstanding results over the last two years, gaining a whopping 184% over that

period. There are signs that even if gold falls, Kirkland Lake will deliver considerable value.

The miner has gold reserves of 21 million ounces and annual production of around 1.5 million ounces. Both Kirkland Lake's gold reserves and production will grow significantly because it entered into a US\$3.7 billion agreement in late 2019 [to acquire](#) Canadian miner **Detour Gold**, which owns the Detour Lake gold mine.

That deal will add gold reserves of 15 million ounces and around 621,000 ounces of annual gold production to Kirkland Lake's operations once the deal is complete.

The miner reported record full-year gold production for 2019 of 974,614 ounces on the back of record production at its Australian Fosterville mine, which for 2019 was a notable 74% greater than a year earlier.

Such a solid increase in gold output will ensure that earnings grow at a solid clip, particularly given that Kirkland Lake has some of the lowest all-in sustaining costs (AISCs) in its industry.

For the first nine months of 2019, the miner reported AISCs of US\$584 per ounce, which were 21% lower year over year and less than half of the average realized price of gold for the period. That sees Kirkland Lake on track to report record earnings for 2019, giving its stock a healthy lift.

Foolish takeaway

Kirkland Lake's strong 2019 performance allowed it to hike its dividend, increasing the quarterly payment by 50% to US\$0.06 per share, giving it a forward annual yield of just over 0.5%. That certainly boosts its appeal as an investment, making it a preferable play on [higher gold](#) when it is considered that bullion doesn't pay any income.

While gold may weaken over the short term, this shouldn't deter investors from adding Kirkland Lake to their portfolio. Not only is the miner a solid hedge against growing economic and geopolitical risk, but it is poised to unlock considerable value for shareholders, which will significantly boost its market value.

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