



Kirkland Lake Gold (TSX:KL) Stock Is Crushing the Market for 1 Reason

Description

On January 11, 2019, I [wrote](#) that 2019 will be the best year on record for **Kirkland Lake Gold Ltd** (TSX:KL)(NYSE:KL) stock.

“Since its current management team took over, Kirkland has consistently posted higher assets, profits, reserves, and cash flow, allowing it to initiate a growing dividend and a share-repurchase program,” I wrote. “In an industry rife with a growth-at-all-costs mindset, Kirkland’s management is a breath of fresh air.”

“The best days are yet to come,” I concluded. “Looking at 2019, there’s plenty of reason to believe it will be Kirkland’s best year yet.”

How did 2019 pan out? The stock exploded higher by 70%.

Here’s the best part: 2020 could be just as impressive. If you missed this winning stock pick last year, pay close attention.

Assets to envy

Kirkland has developed an incredible asset base, one that can deliver positive shareholder returns in a variety of environments.

Over the second half of 2016, gold prices fell by 10%. Kirkland stock, meanwhile, *rose* by 30%. In the second half of 2017, gold prices dropped by 15% yet Kirkland stock was roughly flat. Few gold miners can generate these returns during a downward pricing environment.

That’s simply what happens when gold prices are falling. When they’re rising, the stock goes on steroids. Since September of 2018, gold prices have shot higher by US\$350, roughly 30%. Over that timespan, Kirkland stock has more than *doubled*.

Resiliency and rapid growth have been attainable thanks to an incredible asset base, one that ensures

low extraction costs and rising long-term volumes.

Growing volumes increase the top line, low costs insulate the company from pricing collapses, and a strong balance sheet (\$615 million in cash and no debt) means the company can continue to invest throughout the commodity cycle.

That last point, about Kirkland's strong balance sheet, is an important one. All too often, resource companies deplete their cash reserves and take on onerous debt loads at the very top of the market.

In retrospect, this is an obvious error, but few investors complain when prices are hitting all-time highs.

Bloated balance sheets force these companies to become sellers when prices dip. This only exacerbates the pricing collapse, pressuring them to make additional fire-sale disposals. With prudent asset allocation, Kirkland can take advantage of their woes, executing on the proverbial "buy low, sell high."

Cash flow on steroids

Kirkland is nearing the end of a multi-year capital expansion that saw its gold production rise from 155,000 ounces to nearly 1 million ounces per year.

All-in costs, meanwhile, fell from \$930 per ounce to \$540 per ounce. As capital spending reverts lower, Kirkland is in a prime position to generate serious cash flow.

Already, cash levels are exploding. Over the next three years, Kirkland's cash balance could increase by more than \$1 billion. That's nearly 10% of its entire market cap!

It's important to review why Kirkland is in such an enviable position. Over the last five years, the company has proven to be one of the best asset allocators in the industry. That's a skill that will prove just as useful as free cash flow begins to ramp.

CATEGORY

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