



## Why Kirkland Lake Gold (TSX:KL) Is the Top Gold Stock for 2020

### Description

**Kirkland Lake Gold Ltd.** (TSX:KL)(NYSE:KL) is on a tear. Since 2015, shares have risen by more than 3,000%. **Agnico Eagle Mines Ltd.**, for comparison, is up just 150%.

What has caused this [incredible performance](#)? Can you still take advantage? Fortunately, 2020 could be Kirkland's best year yet. Even if a recession hits, this company is primed for success.

### All about the assets

When mining for any resource, your asset base often signals your future success. When commodity prices are high, companies scramble to bring on new production. Only in retrospect do we deem these efforts "high-cost" projects.

The oil bull market is a textbook example. In 2014, oil prices averaged above US\$100 per barrel for five years straight. That's the longest period of elevated oil prices in history.

Energy firms were spending *billions* to develop projects that had breakeven levels above US\$60 per barrel. Many deep water plays only turned a profit with prices above US\$100 per barrel.

By 2015, prices had plummeted to US\$50 per barrel. Despite some volatility, however, they've remained within that range ever since. The industry has never been the same.

Bloated with high-cost assets, dozens of operators have gone bankrupt. Dozens more have seen their share prices sink by more than 50%, struggling to monetize assets that may never have positive economic value.

When it comes to commodity investing, capital allocation is key. Management teams must shore up the financial power and tenacity needed to make acquisitions during a difficult bear market.

They then must resist the urge to pursue growth-at-all-costs when prices are skyrocketing. Kirkland Lake has demonstrated this skill better than nearly any other gold miner.

## Margin of safety

Since 2016, Kirkland Lake has increased gold production from 314,000 ounces per year to 975,000. Despite rapid growth, the company has *lowered* its cost of production. In 2016, all-in costs were \$916 per ounce. Last year, prices fell to \$584 per ounce. Over the past 12 months alone, all-in costs have fallen 21%.

Falling cost alongside rising sales can only mean one thing: free cash flow generation. Free cash flow last quarter hit \$181.3 million, up from \$52.2 million in the same quarter of 2018. Last year, the company's cash balance more than doubled, moving from \$332 million to \$705 million.

If you're familiar with resource investing, you'll know that this performance is rare. For comparison, Agnico Eagle Mines, which is 60% larger than Kirkland Lake, has generated *negative* free cash multiple years in a row, totaling nearly \$1 billion.

Properly allocating capital to low-cost projects and not over-spending means Kirkland Lake has a wide margin of safety when disaster hits. If gold prices fell by more than 50%, the company could still generate a profit.

The rest of the industry, meanwhile, would be in turmoil. That's exactly the time that you want to be invested in a company with zero debt, big cash reserves, and a cash flow positive business.

In both bull *and* bear markets, Kirkland Lake is primed to succeed. A temporary bear market might even benefit the company long term, as it'll be able to expand on the cheap.

Capital allocation doesn't sound groundbreaking, but in an industry rife with terrible financial management, it's a big advantage — one that keeps paying year after year. In 2020, expect more of the same.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

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