



## 1 Top Canadian Gold Stock to Buy in 2020

### Description

Canadian gold stocks are finally performing after being weighed down by gold's prolonged slump after the 2008 Great Recession. Gold is one of the few assets that has performed strongly since the World Health Organization (WHO) declared a pandemic.

The yellow metal is up 14% for the year to date to be trading at over US\$1,731 an ounce. This coupled with the positive outlook for gold, with some analysts tipping it could reach [US\\$3,000 per ounce](#), is a boon for gold miners.

Intermediate gold miner **Kirkland Lake** (TSX:KL)(NYSE:KL) has lost 6% since the start of 2020, creating an opportunity to acquire a leading gold miner at an attractive valuation



The miner's market value has dropped because of the impact of the coronavirus pandemic on its operations. The risks, however, appear overblown, and Kirkland Lake will unlock further long-term value for shareholders.

## Solid results

Some Canadian gold stocks have reported that the pandemic has impacted their operations, as they shutter non-essential operations. Despite that risk, Kirkland Lake reported some solid first-quarter 2020 results, attesting to the quality of its assets. Notably, gold production shot up by an impressive 43% year over year to 330,864 ounces. That allowed Kirkland to take full advantage of higher gold prices. It also offsets the 39% spike in all-in sustaining costs (AISCs) to US\$776 per gold ounce sold.

Kirkland Lake reported first-quarter cash costs of a low US\$440 per gold ounce. This highlights the considerable operational profitability of its assets when gold is trading at over US\$1,730 an ounce. As a result of higher gold and the significant leap in gold output, Kirkland Lake's net earnings shot up by an impressive 84% to US\$203 million.

Importantly, for such a capital-intensive industry, Kirkland Lake was not only free cash flow positive but reported that adjusted free cash flow had doubled to US\$191 million.

A key contributor to the healthy spike in gold production was the completion of the acquisition of Detour Gold in January.

Nonetheless, in response to the considerable uncertainty triggered by the coronavirus pandemic, Kirkland Lake withdrew its annual 2020 guidance.

## Quality gold stock

Clearly, the pandemic will impact Kirkland Lake's operations and hence earnings, but the outlook is not as severe as the market perceives. Australia, where the miner's flagship Fosterville mine is located, is in the process of re-opening its economy after successfully curbing the spread of coronavirus early in the pandemic.

Fosterville is a world-class mine responsible for 48% of Kirkland Lake's gold production. The gold produced at Fosterville for the first quarter had an impressive ore grade of 42.4 gams of gold per tonne of ore (g/t). That is the highest graded of any of Kirkland Lake's mines and is a key reason for Fosterville's low AISCs of US\$333 per gold ounce sold during the quarter.

## Robust balance sheet for a gold miner

What makes Kirkland Lake stand out in a capital-intensive industry, aside from generating considerable free cash flow, is its strong balance sheet. The miner finished the first quarter with US\$531 million in cash. More impressive is that Kirkland Lake has no long-term debt other than long-term lease obligations and provisions of \$161 million.

The considerable financial flexibility provided by Kirkland Lake's robust balance sheet is an important attribute. This is especially the case when it is considered that gold mining is a capital-intensive industry with considerable operational hazards. It also boosts Kirkland Lake's ability to mitigate the impact of the coronavirus on its operations.

## Foolish takeaway

Canadian gold stocks will perform strongly over the remainder of 2020. Gold is the ideal hedge against the uncertainty triggered by the coronavirus pandemic. Kirkland Lake is a [top gold miner](#) to own during such uncertain times. Its high-quality Macassa and Fosterville mines, with high ore grades, make it a low-cost operator. Once Kirkland Lake can re-commence full operations, its earnings and stock will soar.

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