This TSX Gold Stock Can Rise 3,164%

Description

Kirkland Lake Gold (TSX:KL)(NYSE:KL) is an incredible gold stock. Since mid-2015, shares have exploded higher by 3,164%. That's *30 times* your money in just five years.

This January, I'd named Kirkland my favourite gold investment of 2020. Year to date, shares are roughly flat. That's an incredible outcome considering we just experienced one of the most disruptive economic shocks in modern history.

But the run isn't over. This gold stock has a structural competitive advantage that will reward long-term shareholders for years to come.

Get ready to profit

Mining stocks are notoriously bad investments. Consider the **S&P/TSX Global Mining Index**. Over the previous decade, it has *declined* in value by 10%. What a waste of time and money.

Many mining projects produce billions in revenue, yet shareholders are often left with nothing. The problem is capital allocation.

Let's say gold prices are $1,500 per ounce, and a gold stock wants to develop a new mine. Studies reveal a breakeven price of $1,700 per ounce. That is, once all the development costs are tallied, prevailing gold prices would need to average above $1,700 per ounce over the life of the mine to turn a profit.

With prices stuck at $1,500 per ounce, this project won't be developed.

Now let's say gold prices *increase* to $1,900 per ounce. Suddenly, that undeveloped mine becomes economically viable. Construction begins, pouring hundreds of millions of dollars into the project. Investors, excited about this growth, push the gold stock higher.

Then, as they often do, gold prices collapse back to $1,500. The mine is no long economically viable, meaning construction will cease. Yet the mining company is still stuck with the huge expense of partially developing the project, which drew from the profitable mining projects it had elsewhere. This is how you destroy capital with nothing to show for it.

Various examples of this capital destruction have been experienced for decades across the gold industry. As you'll see, Kirkland is different.

This gold stock is special

Kirkland's number one specialty is to keep costs low. This ensures ample profits no matter where gold prices head.

In 2016, it cost the company $930 to produce an ounce of gold. In 2017, that figure decreased to $812, falling again to $685 in 2018. Last year, all-in costs were only $564. It would take an unprecedented 70% plunge in gold prices for the company to start losing money.

The other thing that this gold stock exceeds at is not over-expanding. Flush with cash, most miners would start to build an empire. Not Kirkland.

To be clear, production *is* rising fairly quickly. But management isn't shoveling the profits into new, higher-cost projects.

Last year, free cash flow hit $463 million. Some of this is used to pay the 1.2% dividend. Management also repurchased $329 million in shares last quarter. The rest of the money is piling up in the bank account.

Kirkland now has a cash hoard of more than $500 million. Expect much of this to be used for more share buybacks and dividends. The rest will likely be saved for a rainy day. That's something few gold stocks have been able to do.

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rvanzo