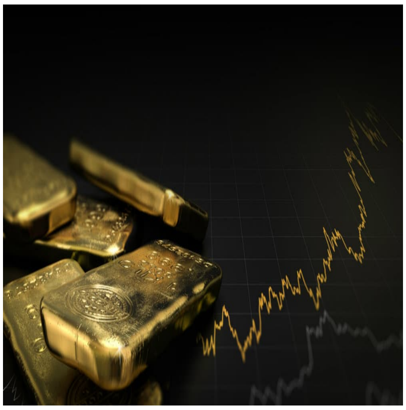

Market Crash 2.0: Is it Time to Bet on Kirkland Gold (TSX:KL) Stock?

Description

The markets have staged an impressive recovery since the bloodbath witnessed in March. However, experts also believe the rebound is not in sync with market fundamentals, and there is more pain ahead for investors. The unemployment rates remain high, while several countries witnessed their worst GDP declines for several decades in the June quarter.

If you expect the markets to crash again, you can shift your focus on defensive bets like **Kirkland Gold** (TSX:KL)(NYSE:KL). Is a perfect storm brewing for physical gold and mining companies like Kirkland to thrive? An economic contraction is a perfect opportunity for investors to go on the offensive and add gold mining stocks to their portfolios.

Gold prices touched a record high of US$2,067 per ounce in August, which supported the impressive rally in mining companies. According to the latest 13F filings, Warren Buffett also entered this sector with a 1.2% stake worth US$622 million in **Barrick Gold**.

So, if the Oracle of Omaha is willing to enter this space, gold companies definitely warrant a closer look.

Kirkland Gold has returned 2,360% since September 2015

The Canadian gold heavyweight has been on an absolute tear in the last five years and has returned 2,360% since September 2015. This means a $1,000 investment in Kirkland Gold five years back would have returned close to $25,000 today.

Kirkland operates assets in Canada and Australia and has managed to generate strong cash flows over the years. In the first half of 2020, it generated $418 million in free cash flow, driven by its acquisition of Detour Lake.

Kirkland is debt-free and has $537 million in cash. The stock is trading at 12.4 times operating cash flow, which might indicate Kirkland is overvalued, given its five-year average multiple of 10.1. However, the slight premium can be overlooked if gold prices continue to move higher in the upcoming months.

There are multiple drivers for higher gold prices. A low interest rate environment combined with quantitative easing measures and bearish investor sentiment will all contribute towards high prices for the yellow metal. A weak U.S. dollar and gold prices have historically had an inverse relationship, and this trend can be expected to continue in the future.

The Foolish takeaway

Kirkland Gold remains a top gold stock to place your bets on given its strong balance sheet and low all-in sustaining costs (AISC). This AISC is the cost associated with mining operations and maintenance. In Q2, Kirkland's AISC was US$751 an ounce, which is among the lowest for gold miners.

So, the company was effectively generating US$1,250 an ounce in profits when gold was trading at $2,000. If gold prices touch US$2,500, Kirkland will generate US$1,750 in profits for each ounce mined. So, a 25% rise in gold prices will result in a 40% increase in profit margins, indicating high operating leverage.

The operating efficiency for gold miners has been improving over the years. Further, macro catalysts for physical gold are also strong right now. There is a good chance that fundamentally strong companies, including Kirkland, will outperform broader markets in 2020 and beyond.

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