2 Top TSX Gold Stocks to Add for Defensiveness Right Now

Description

Gold has traditionally been a key hedge against market uncertainty. With valuations where they are today, hedging at least a portion of one's portfolio certainly seems like a prudent idea.

This safe haven is often looked to as a hedge due to its negative correlation to overall markets. However, gold has surprisingly underperformed my expectations of late. Accordingly, there are some concerns building that gold may not be the hedge it once was.

That said, I think there is a case to be made for gold and specifically gold miners. Here are two of my top picks in this regard.

Kirkland Lake Gold

Given its current valuation, I'd venture to say that **Kirkland Lake Gold** (TSX:KL)(NYSE:KL) is severely undervalued. The company's price-to-earnings multiple is roughly half that of the broader market. Accordingly, at these levels, Kirkland Lake looks like a steal today.

From an operating efficiency standpoint, Kirkland Lake is one of the best gold miners in the world. This miner's high-quality, high-margin mines make it an ideal long-term investment. Given where gold prices are today, I'd expect to see continued margin expansion. Given how Kirkland Lake's existing margins are today, investors get a large margin of safety with this stock right now.

Kirkland Lake has essentially no debt on its balance sheet. Unlike other miners with less-than-perfect balance sheets, Kirkland Lake's rather pristine financial position puts this miner in a league of its own. Kirkland Lake has the ability to increase its dividend dramatically (as it has done). Additionally, the company could go out and acquire gold reserves as it sees fit. I think both scenarios are likely, and I like the positioning of Kirkland Lake today.

Additionally, I think Kirkland Lake's size is something investors ought to consider. Being a considerably small player in the market, Kirkland is positioned to deliver a greater upside than other big players on the TSX. It increased its revenue to above $3 billion last year — a hike of 78% year on year.

It also offers a dividend of 2%. Analysts place this firm's 12-month price target at $56, which translates to upside potential of 35% at the time of writing. This sort of capital-appreciation potential is very exciting for long-term investors.

Franco-Nevada

Despite a relatively high valuation, I think **Franco-Nevada** (TSX:FNV)(NYSE:FNV) is one of the safer bets in the gold mining space.

Why?

Well, Franco-Nevada isn't quite a gold miner. Rather, this company focuses on royalties and streaming in the gold mining space. Instead of doing the dirty work of exploring and operating mines, Franco-Nevada provides the upfront financing for these endeavours. In return, the company receives royalties on every ounce produced.

This business model has been extremely successful, particularly as the price of gold has risen. Production volumes are up, and Franco-Nevada is bringing in cash flow like nobody's business. This has allowed Franco-Nevada to grow at a CAGR of around 18% over the past 10 years. That's impressive, and something few gold miners are able to achieve.

Additionally, Franco-Nevada has been able to increase its dividend for 13 consecutive years. Given the amount of capital appreciation with this stock over this time, the company's yield remains below 1% today. However, there is an intriguing dividend argument to be made with this stock as well.

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