How Acquiring Kirkland Lake Gold Will Impact Agnico Eagle's Stock Price

Description

In late September, **Agnico Eagle Mines** (TSX:AEM)(NYSE:AEM) and **Kirkland Lake** (TSX:KL)(NYSE:KL) disclosed they have entered an agreement to combine in a merger of equals. The combined entity will operate under the Agnico Eagle Mines name, and the merger will establish the company as the highest-quality senior producer among gold miners. It will create a company with lower unit costs, a favourable risk profile, and robust margins.

After the acquisition closes, Agnico Eagle will have $2.3 billion in available liquidity, a mineral reserve base of 48 million gold ounces, as well as an extensive pipeline of development and exploration projects.

The two companies expect the acquisition to result in cost synergies and help to increase cash flows and net asset value going forward, which will continue to improve shareholder returns higher. In the first five years, cost synergies are forecast at $800 million, while in 10 years, synergies might touch $2 billion.

Kirkland Lake Gold stock experiences a selloff

The merger was announced on September 28 and Kirkland stock fell over 7% that day. Agnico's press release states that Kirkland shareholders will receive 0.7935 of Agnico Eagle shares for each stock of the former, valuing the deal at $10.6 billion. But this also meant that Kirkland was acquired at a premium of just 1% compared to its 10-day volume-weighted average price.

Investors expected the premium to be higher, given Kirkland's operating cash flows in 2020 stood at $1.3 billion, compared to Agnico's cash flows of $1.2 billion. Further, Kirkland Gold is also one of the most efficient miners in the world, as its all-in sustaining cost, or AISC, is expected to be in a range between $790 per ounce and $810 per ounce in 2021. Agnico's AISC is forecast between $950 and $1,000 per ounce this year.

Prior to this announcement, Kirkland was already one of the most undervalued stocks on the TSX. The company's net income surged 67% year over year in Q2, while its free cash flow rose over 200% on a sequential basis. Kirkland is also part of a capital-intensive industry but remains debt-free, underlying the strength of its balance sheet.

Despite its attractive valuation, Kirkland Gold stock has gained a staggering 606% in the last five years. Shares are also up 2,350% since its IPO in July 2015.

What's next for Agnico Gold stock?

We can see why investors were not impressed with the acquisition announcement at the current valuation. But if the deal goes through, it augurs well for Agnico Gold, as the mining giant is well positioned to unlock value from the merger given its expertise and scale. Agnico had earlier forecast to increase gold production by 24% between 2020 and 2024. Now, merging with Kirkland will enable it to gain traction in Canada while lowering costs at a significant pace.

The two companies have emphasized that they will focus on capital distribution to shareholders in the coming years. In 2020, Agnico and Kirkland returned $1.6 billion to shareholders via dividends and share repurchases. Further, Agnico Gold has increased dividends at an annual rate of 20% since 2010, and its stock provides investors with a forward yield of 2.6%.

If the acquisition moves forward, investors should expect Agnico stock to gain momentum and end the year closer to its record highs.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. araghunath
2. kduncombe

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/08/16
Date Created
2021/10/11
Author
araghunath