

Value Stock: Kirkland Lake Gold

"Kirkland Lake Gold Ltd. engages in the acquisition, exploration, development, and operation of gold properties. Kirkland Lake Gold Ltd. is headquartered in Toronto, Canada." (*Kirkland Lake Gold (TSX:KL)*) In addition, the company owns two main gold mines: Macassa Mine located in Kirkland Lake, Ontario, Canada and The Fosterville Mine located in the State of Victoria, Australia.

When looking at stocks that are best for value investors, there are multiple criteria they must pass such as their stock price being undervalued, have healthy profit margins etc. Looking at Kirkland Lake Gold Ltd. quantitatively, they have various stock ratios going very well for them. Firstly, Kirkland Lake Gold's price-to-book ratio (which simply tells us whether a company is overvalued or under-valued and the lesser the value the better) is 2.22. While this is higher than the lucrative P/B ratio of 1, it is less than the CA metals and mining average of 2.6x. Secondly, their trailing Price to Earnings Ratio is 14.11 while their forward P/E ratio is 8.80 (*Kirkland Lake Gold Ltd. (KL) Valuation*). Moreover, their trailing P/E ratio is both less than the CA metals and mining industry average of 18.1x and Canadian market at 15.5x. Furthermore, we see that Kirkland Lake Gold Ltd. can prove to be a good value stock. In addition, Kirkland Lake Gold Ltd. also shows very healthy profit margins. According to Yahoo Finance, the company has a 33.21 percent profit margin and a trailing twelve months Operating margin of 53.75 percent. (*Kirkland Lake Gold Ltd. (KL) Valuation*) Over the past few years, Kirkland Lake Gold Ltd. has been able to consistently grow their profit margins. As a result, we can say these numbers are indicative of a company with a competitive edge or one that could survive a downturn. As value investors will be patient and hold a stock long-term, dividends are very important for investors who still wish to receive a return even if the company has not had a great stock growth. According to Yahoo finance, the company has a dividend payout ratio of 15.26 percent, making it an attractive prospect as these dividends can be sustainable. (*Kirkland Lake Gold Ltd. (KL) Valuation*) Furthermore, the company has a quick ratio of 1.84 and a current ratio of 2.15 which shows the company has the ability to pay off all debts in cash due within a year. Overall, quantitatively, Kirkland Lake Gold Ltd. looks to be very strong and stable, leading one to conclude that it will be a very good value buy.

On the other side of the spectrum, quantitatively, there are many aspects of a company which provide more insight into how the company is run and how the future could be for them. Firstly, gold is not vulnerable to changes in technology or consumer tastes. Moreover, as the company mainly focuses on the exploration, mining and

development of gold properties, advancements in technology will only further streamline their operation process. This may lead to more efficiency and a possibility of lower operating costs for the company. Consequently, leading to larger profit margins for Kirkland Lake Gold Ltd. The company's main product being gold may be a deterrent to some value investors since gold is a commodity. However, gold is vastly different to most commodities as it can also be defined as a form of currency and is not tied to anything else. This leads us into one of the most important reasons to invest in a gold company which is the prediction of an upcoming recession. Usually, during a recession the prices of gold rise which in turn could increase revenue from the sale of gold properties. In addition, the Materials sector is mildly resistant to a recession. Furthermore, companies with low-debt, low operating costs and healthy profit margins are well equipped to stay afloat during a recession while companies with large amounts of debt have a risk of going bankrupt. Kirkland Lake Gold Ltd. is debt free and has massively reduced its debt to equity ratio from 35.3 percent and as the company does not have any debt it does not need to be covered by operating cash flow and coverage of interest payments is not a concern (*Kirkland Lake Gold (TSX:KL)*). We can further conclude that in the case of a big recession, Kirkland Lake Gold Ltd. may do better than most companies and have a low risk of bankruptcy and total loss to the shareholder.

There are two popular signals indicating a value stock: A consistently growing Earnings Per Share (EPS) value and a consistently growing book value. Kirkland Lake Gold Ltd. has seen a consistently growing EPS from 2016-2020 (data could only be found 2016 onwards). "Kirkland Lake Gold 2017 annual EPS was **\$0.63**, a **85.29% increase** from 2016...2018 annual EPS was **\$1.29**, a **104.76% increase** from 2017...2019 annual EPS was **\$2.65**, a **105.43% increase** from 2018... twelve months ending September 30, 2020 was **\$2.85**, a **37.68% increase** year-over-year." (*Kirkland Lake Gold EPS*). The company also has a consistently growing book value per share which was 4.46 in December 2016, 5.49 in December 2017, 6.02 in December 2018, and 8.67 in December 2019. (*Kirkland Lake Gold Book*)

In conclusion, Kirkland Lake Gold Ltd. meets most of the criteria mentioned in the unit such as having healthy profit margins, consistently growing EPS, an easy to understand business etc. Kirkland Lake Gold Ltd. seems to be fairly undervalued with its stock price of \$40.60 and is a good example of a company a value investor should buy.

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Kirkland Lake Gold EPS - Earnings per Share

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