

KIRKLAND LAKE GOLD Inc

A Gold Darling with a Rich Valuation; Initiating at Neutral with US\$47 Target Price

Precious Metals | Initiation

KL

Target price (12M, US\$)

47.00

Neutral

- **Neutral Rating, US\$47.00 TP:** We initiate coverage of Kirkland Lake with a Neutral rating and US\$47.00 target price. Though we appreciate KL's growing production, long-term exploration upside at Fosterville and Macassa, and bottom-quartile cost profile that results in substantial FCF, we are cautious on the stock based on the valuation. We do not anticipate future discoveries at Fosterville will necessarily match the high Swan Zone grades, and therefore, the upside potential, while still there, does not seem as exciting at the current stock price.
- **Gold Darling:** KL has been one of the best performing stocks on the TSX this year, with a ~70% share price return (~495% over the past three years). This performance has been driven mainly by increased production/reserves on higher grades at KL's flagship Fosterville mine.
- **Missing the Boat and Remaining Upside:** The most common investor questions on KL are regarding the amount of upside left, given the stock's strong performance to date, and whether investors who have not already bought KL have missed the story. We continue to see upside, albeit more limited than the recent trend, from Fosterville and Macassa exploration, but the valuation gives us pause, as it seems to price in continued jumps in reserves. We believe that even a single weaker reserve/exploration update at Fosterville and/or Macassa that curbs the positive grade trend could see the stock pull back.
- **Lack of Near-Term Catalysts Beyond Exploration Updates:** While the ramp-up of Holloway and a potential restart of the Northern Territory are positive, neither is material enough to move the stock higher. In addition, completion of Shaft #4 at Macassa, which adds significant production, will not be completed until 2022.
- **Valuation:** Our US\$47 TP is based on a 50/50 blended valuation of NAV and FY20 adjusted cash flow from operations. We use a 2.30x P/NAV multiple on our NAVPS of ~US\$25. We apply a 13.0x P/CFO (adj.) multiple to 2020 forecast cash flow of ~US\$3.
- **Risks:** Key risks to our view are commodity prices, operations, and exploration results.

Price (4 Oct 19, US\$)	46.64
52-week price range	51.04 - 18.41
Market cap (US\$ m)	9,803.22
Enterprise value (US\$ m)	9,074.90

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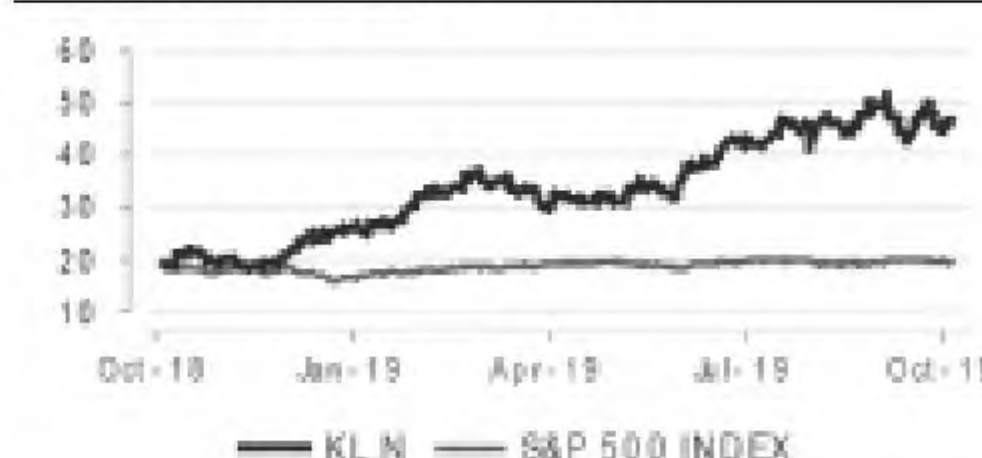
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Financial and valuation metrics

Year	12/18A	12/19E	12/20E	12/21E
EPS (CS adj.) (US\$)	1.35	2.52	2.82	2.55
Prev. EPS (US\$)	-	-	-	-
Revenue (US\$ m)	915.9	1,382.7	1,535.0	1,472.1
EBITDA (US\$ m)	531.6	954.7	1,047.0	986.3
P/OCF (x)	10.2	12.5	12.8	13.5
EV/EBITDA (current)	17.6	9.8	8.9	9.5
Net debt (US\$ m)	-310	-728	-1,192	-1,659
ROIC (%)	36.42	52.94	50.82	45.26
Number of shares (m)	210.19	IC (current, US\$ m)		953.10
Net debt (Next Qtr., US\$ m)	-594.8	Dividend (current, US\$)		0.16
Net debt/tot eq (Next Qtr., %)	-36.7			

Source: Company data, Refinitiv, Credit Suisse estimates

Share price performance



On 04-Oct-2019 the S&P 500 INDEX closed at 2952.01 Daily
Oct05, 2018 - Oct04, 2019, 10/05/18 = US\$19.28

Quarterly EPS	Q1	Q2	Q3	Q4
2018A	0.25	0.30	0.28	0.50
2019E	0.53	0.50	0.72	0.77
2020E	0.71	0.71	0.67	0.65

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