

## A Great Model, But You're Paying For It

### Description

**Silver Wheaton** (TSX:SLW,NYSE:SLW) released quarterly and 2012 year-end earnings last week and the numbers appear solid. Compared to 2011, several indicators demonstrated nice growth including production, earnings, and operating cash flow. In addition, recently announced streaming agreements with Hudbay Minerals and Vale help to ensure a bright future for the company, barring a crash in commodity prices.

### Great company, bad stock?

Silver Wheaton is part of a collection of companies with business models oriented to providing an alternative source of financing to the mining industry. Though not all of these companies follow the same "streaming" model that SLW uses, the entire group is well positioned to benefit from the current drought in traditional debt and equity issuance facing the industry. The problem is, investors have to pay up if they want to invest in the haves vs. the have-nots of the mining world.

The table below indicates that this collection of financiers are rather expensive relative to the rest of S&P/TSX Metals and Mining Index.

| Name                                     | P/E         | P/B        | ROE         | Earnings Yield |
|--|-------------|------------|-------------|----------------|
| <b>Silver Wheaton</b> (TSX:SLW,NYSE:SLW) | 19.3        | 3.6        | 20.3%       | 5.6%           |
| <b>Sandstorm</b> (TSX:SSL,NYSEMKT:SAND)  | 41.0        | 2.6        | 9.0%        | 3.4%           |
| <b>Royal Gold</b> (TSX:RGD,NASDAQ:RGLD)  | 43.3        | 2.0        | 5.2%        | 2.7%           |
| <b>Franco Nevada</b> (TSX:FNV,NYSE:FNV)  | 64.6        | 2.1        | 3.4%        | 1.7%           |
| <i>Average</i>                           | <i>42.0</i> | <i>2.6</i> | <i>9.5%</i> | <i>3.3%</i>    |
| TSX Metals + Mining Index                | 23.3        | 1.1        | 5.2%        | 4.7%           |

Source: Capital IQ

Given the rather paltry ROE and earnings yield provided by this high-priced group, you're really not

getting much for what you pay for. Silver Wheaton and its ROE of 20% and EY of 5.6% is the only one that comes close to deserving its current multiples relative to the rest of the industry.

### **The Foolish Bottom Line**

On average, these four financiers have doubled in value over the past 3 years while the rest of the Canadian mining space has declined by 17%. If, someday, the sun once again shines on the Materials sector, given the valuation gap that exists between the financiers and the mining companies, this performance could very well invert over the next three years. Not that the financiers will decline in value in a more bullish environment for mining, but there is a lot more torque built into the producer's stocks given the rough patch they have endured. In my opinion, if you're bullish, the miners are the place to be.

*There is one natural resource in particular that you should be especially bullish about. We have prepared a special free report that outlines the supply/demand dynamics that support the long-term case for this material and specify two ways that you can jump on for the ride. Simply [click here](#) to receive this report, absolutely free!*

[Follow us on Twitter](#) and [Facebook](#) for the latest in Foolish investing.

*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.*

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. TSX:WPM (Wheaton Precious Metals Corp.)

### **Category**

1. Investing

### **Date**

2025/09/26

### **Date Created**

2013/03/22

### **Author**

tmfohcanada

default watermark