



Sandstorm CEO Nolan Watson Sees Upside for Gold Prices

Description

Last week, I had the chance to interview Nolan Watson, founder and CEO of **Sandstorm Gold** ([TSX: SSL](#))([NYSE: SAND](#)). See [part 1 of our discussion here](#).

Sandstorm has been a tremendous growth story since its start in 2008. Investors love the company's low-risk streaming business model and Watson has been taking advantage of the drop in precious metal prices to scoop up a number of great deals for shareholders.

Robert Baillieul: Digging into your portfolio, your company has completed 30 junior streaming deals and 13 are up and running. However, there was one deal that you wrote off. With gold trading around U.S. \$1,200 to U.S. \$1,300 per ounce, is there any risk of more deals souring in the future?

Nolan Watson: The riskiest phase of a mining company's life is while they're constructing the asset. Not only are there a lot of things that can go wrong both technically and mechanically, there's also the risk of the company overrunning on the cost of building that mine. Especially if you're a junior company that has limited access to capital, you could run out of money and be left with a half-built mine.

The one that we wrote off was that situation where the company had not fully gotten itself into production. Virtually all of our material production is on mines that are already up and running. They're out of that phase of life. We're excited now to have a portfolio that is actually up and running and producing cash flow for us.

We are selectively, slowly, and methodically going to purchase the odd asset of a mine that is going to be built. However, we're not going to do a whole bunch of deals all at the same time. We want to continue to be seen by investors as a company that has a stable portfolio of producing assets.

RB: Last month, Sandstorm Gold acquired its sister company, Sandstorm Metals and Energy. The number one reason you've listed in your investor presentation for the acquisition is that you want to be 100% focused on the gold business. Why is the energy space not an attractive expansion avenue?

NW: When we started the two companies, both of them were roughly of similar size. Sandstorm Gold has grown so much faster and done a lot better and now has approximately \$700 million market cap.

Sandstorm Gold has a very large net of institutional shareholders who were very clear with us that they don't want half a management team. They want the kind of company where they get all of management's time. We felt the need to honour that and we took action to get them 100% management time.

RB: I think today a lot of resource investors are skeptical of companies that emphasize growth for the sake of growth. It has become apparent over that last few years, a number of companies put growing production over profitability with disastrous results. What I'm trying to get at is, what is your capital allocation philosophy?

NW: We are in a position where we haven't raised equity in Sandstorm Gold since 2012 and we are very dilution conscious. Our philosophy is that we will only grow the business if it leave existing shareholders more net asset value and cash flow per share than if we didn't do a particular transaction. If it doesn't meet that long-term test than we don't want to do that transaction.

We believe that one of our competitive advantages is that we have a niche in that we're in the smaller side of the business. We want to stay that way. Our goal is not to become as big as **Franco Nevada**.

I use to be the CFO of a multi-billion streaming company before and was excited to go work and start up a more entrepreneurial company. That's why we started up Sandstorm. You won't see us try to become a Franco Nevada or a **Silver Wheaton** any time soon.

RB: So you're putting earnings *per share* over earnings.

NW: Yeah, our focus is free cash flow per share. That's our focus.

RB: Obviously, you're talking to miners everyday. How would you describe the mood in the industry right now?

NW: Cautiously optimistic. The industry has been very bearish for a long period of time.

There's certainly a strong subset of people in the industry that are still bearish today. There are people who feel like we may have formed a bottom and they want to start pouring in capital that they have been saving up. What you're seeing in the industry is optimistic people buying assets from pessimistic people.

I don't know anyone in the industry who is a raging bull at this point in time. Cautious optimism is ruling the day.

RB: Skeptics have pointed out a lot of headwinds for precious metal prices. Federal Reserve Chair Janet Yellen is reigning in stimulus policies. The U.S. economy is starting to find its legs. Could these factors put a cap on the price of gold or related products like the **SPDR Gold Trust** ([NYSEMKT: GLD](#))?

NW: I think a lot of those skeptics are American and I think the mistake they're making is thinking that they are more important to the world wide gold industry than they actually are.

The vast majority of the world's gold is not being bought by Americans any more. It used to be, but not any more. There are a number of relevant factors. The largest factor right now is the Chinese market, followed by Indian market, then other Asian countries, then the United States, and then the rest of the world.

What I think is going on the the U.S. is a mass liquidation of gold that is being bought by the rest of the world. If that liquidation continues, I think the rest of the world will continue to buy America's gold and they will be happy to do so. If the U.S. decides one day to stop selling its gold in ETFs [exchange traded funds] and various funds, then I think you're going to see the price of gold go up when that supply from the U.S. decreases.

RB: Thanks for taking the time to speak with The Motley Fool community and myself. Just wrapping up, is there anything you would like to tell our readers?

NW: I would just say that whenever they're investing in mining to be very, very cautious. Don't focus on the number of ounces produced, don't focus on revenue, and don't believe what mining companies tell you what they're costs are going to be. Focus on actual, measurable, deliverable free cash flow.

That's what we're doing in our business. We want to grow our business in a way that actually rewards investors over the long term not for the short term. I would encourage anyone looking to invest in the mining industry to seriously consider a streaming royalty company because it's a better alternative to investing in a mining company. Sandstorm is the youngest and more growth orientated version of those streaming companies.

CATEGORY

1. Investing

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1. NYSEMKT:GLD (SPDR Gold Trust)
2. TSX:SSL (Sandstorm Gold Ltd.)

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