



3 Ways to Bet Like George Soros on a Recovery in Precious Metals

Description

The billionaire investor who famously broke the Bank of England has been making some big bets on a recovery in precious metal prices of late. This has seen him take some big positions in three of the industry's hottest plays.

These bets are also in harmony with the increasingly positive outlook for the price of gold, silver, and platinum with a range of macro-economic, geopolitical and industry specific factors set to drive their prices higher.

Let's take a closer look at three of Soros's biggest bets in the beaten-down precious metals mining industry.

This precious metals streamer is loved by investors for good reason

Soros has made a hefty bet on precious metals streaming company **Franco-Nevada Gold** ([TSX: FNV](#))([NYSE: FNV](#)) by investing \$6.9 million in the company's stock. Franco-Nevada has performed admirably over the last year with its shares popping a very respectable 51%, as the company continues to grow its precious metals and commodities streaming portfolio.

Unlike peer **Silver Wheaton** (TSX: SLW)(NYSE: SLW), Franco-Nevada possesses a widely diversified series of royalty and streaming contracts across both precious metals and crude oil. Gold provides 67% of Franco-Nevada's revenue while oil and gas makes up 18%, with the remainder provided by platinum and other minerals.

This has allowed Franco-Nevada to benefit from not only the rally in precious metals, but also the recent spike in crude prices.

With gold prices remaining strong at over \$1,300 per ounce and firmer crude prices over the last quarter, Franco-Nevada is well positioned to report solid financial results, which should translate into further appreciation in the share price.

Furthermore, as a precious metals streamer Franco-Nevada doesn't have the same overheads as gold

miners, nor does it have to take on the extensive risks and capital expenditure associated with developing mining assets. This makes it a less risky bet than gold miners on precious metals prices and also allows it to generate a significantly higher margin, which for the first-quarter 2014 was a very robust 81.5%.

This highlights why Soros has made a big bet on Franco-Nevada, despite the company appearing expensive with an enterprise-value of 24 times EBITDA.

This precious metals streamer is a stunning success story

Another of Soros's big bets on a recovery in precious metals prices is his \$9.4 million investment in Silver Wheaton, which since listing in 2005 has seen its share price appreciate by a massive nine times. This highlights how popular Silver Wheaton has become with investors and for good reason.

Like its precious metals streaming peer Franco-Nevada, the company does not have the same overheads as gold miners nor is it required to take on the same degree of risk or investment significant capital in developing projects. This allows it to generate a significantly higher margin per ounce of gold and other precious metals, which make up both inventory and its reserves.

The company continues to deliver solid financial results and is capable of remaining profitable even when there is a significant drop in precious metals prices.

This also allows it to continue rewarding patient investors through the payment of its very sustainable (payout ratio 34%), but somewhat dull dividend yield of 1.1%.

This leaves it well positioned to cash in on firmer gold and silver prices, while continuing to grow cash flow and its bottom line. This highlights why Soros has taken a significant position in the company, despite it appearing expensive with an enterprise value of 21 times EBITDA and why investors should consider it as one of the best ways to play firmer precious metals prices.

This beaten-down gold miner is due to rebound

One of Soros's more interesting bets is the \$20.9 million he has invested in mid-cap gold miner **Yamana Gold** ([TSX: YRI](#))([NYSE: AUJ](#)). The company has been beset by a range of woes, including declining production and rising production, which has seen the company report a net loss for the last two consecutive quarters.

But its acquisition of 50% of **Osisko** in conjunction with **Agnico Eagle Mining** ([TSX: AEM](#))([NYSE: AEM](#)) has given it a half stake in Canada's largest and one of its lowest cost gold mines. This mine has operating cash costs of \$713 per ounce produced and with high-quality ore grades along with growing production is set to be a key contributor to Yamana's improving bottom line.

Furthermore, management is working hard to reduce costs and ensure the company remains on track to achieve its 2014 production guidance of 1.4 million ounces of gold with all-in sustaining costs of \$925 per ounce.

If the company is able to achieve this guidance coupled with higher precious metal prices, there should be a solid rebound in its financial performance, which would see its share price appreciate significantly.

Clearly with major institutional investors such as Soros making significant bets on gold miners and

precious metals streamers, the big end of town is expecting a sustained rally in precious metal prices. Now is the time for investors to act and make a bet on what has been a beaten-down market sector.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AUY (Yamana Gold)
2. TSX:AEM (Agnico Eagle Mines Limited)
3. TSX:FNV (Franco-Nevada)
4. TSX:WPM (Wheaton Precious Metals Corp.)
5. TSX:YRI (Yamana Gold)

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