



Sandstorm Gold Ltd.: Is This Stock the Next Silver Wheaton Corp.?

Description

Investors are like fishermen; they all have a story of the one that got away.

Take streaming metals giant **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW), for example. If you had purchased \$1,000 of the company's shares back in 2004, your investment would be worth \$15,800 today.

An investment in rival **Royal Gold, Inc.** (TSX: RGL)([NASDAQ: RGLD](#)) would have done even better. If you had bought \$1,000 shares of that royalty company back in 1992, your profits would total nearly \$2.5 million and you would be collecting over \$7,000 in annual dividend income today.

Of course, because of sheer size, these companies are unlikely to repeat that performance again. That's why investors looking for similar gains need to search for the *next* Silver Wheaton or the *next* Royal Gold. This company may have what it takes....

Is this company the next Royal Gold?

Sandstorm Gold Ltd. ([TSX: SSL](#))(NYSEMKT: SAND) might be just what investors are looking for.

Sandstorm, like its larger rivals, is a streaming metals company. That means the firm doesn't build or operate any mines itself. Rather, the company finances new mining projects through royalty and streaming deals.

It works like this: Sandstorm fronts mining companies the cash they need to build new projects. In exchange for this upfront payment, Sandstorm is given the right to buy a percentage of the mine's gold or silver production at a steep discount to market prices. This continues for as long as the mine is up and running.

This business model has a lot of advantages over a traditional mining company. Fixed payments mean investors don't have to worry about cost overruns eating into profits. The company can easily cut risk by diversifying across dozens of projects. Also, because Sandstorm pays about U.S.\$500 per ounce on average for gold, this company generates an enormous amount of cash flow.

This business has made Silver Wheaton and Royal Gold investors rich. The same thing could play out again at Sandstorm for a couple of reasons.

First, Sandstorm is only six years old. However, the company is already off to a better start than Silver Wheaton or Royal Gold were at that point. Sandstorm has carved out a lucrative niche in the industry by targeting deals too small for larger rivals. In all, the company already has 14 producing gold streams.

Second, the company has a long growth runway. Last year, the firm's gold stream produced 30,000 gold equivalent ounces, and management expects that figure to double by 2016. However, given the quality of Sandstorm's portfolio, those estimates may be too conservative.

Finally, Sandstorm's Chief Executive, Nolan Watson, is the right executive to lead the company. As the No. 2 man at Silver Wheaton between 2004 and 2008, he helped grow that company's market capitalization 30-fold. There are few people with as much experience in the mining business as Watson.

If you don't buy this stock now, you'll hate yourself later

The bottom line is that Sandstorm is still a relatively undiscovered company. The company has received little coverage by the mainstream media and the stock still trades at a discount to its peers on several financial metrics.

However, in recent months a number of Wall Street brokerage houses initiated coverage on the company, with more likely to follow in the months ahead. Several hedge funds have also started accumulating positions in the stock. I don't expect Sandstorm Gold to remain an undiscovered gem for long.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:RGLD (Royal Gold, Inc.)
2. TSX:SSL (Sandstorm Gold Ltd.)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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