



3 Reasons to Own Sandstorm Gold Ltd.

Description

Mining is tough. Just ask any Canadian gold miner, almost all of which have been pummeled by a deadly combination of falling gold prices and rising costs of mining. Even over the past bull market in gold, prices frequently did not rise sufficiently to cover the equally extreme rise in mining costs.

Rising costs have made it difficult for investors to capitalize on rising gold prices by investing in miners. Indeed, it's caused losses of 80-90% on the way down. Fortunately, there's a company with a unique operating structure that allows it to benefit from rises in gold prices without actually having to do any of the digging itself.

Here are three important reasons to take a look at **Sandstorm Gold Ltd.** ([TSX:SSL](#))([NYSE:SAND](#)).

1. Sandstorm doesn't actually produce gold itself

Sandstorm essentially lends money to gold miners, but gets paid back in fairly interesting ways.

The company generates money through two types of arrangements: royalties and streams. Royalties are where the company receives a portion of the revenue generated from a mine. In a stream arrangement, Sandstorm purchases a portion of the gold produced from the mine at a fixed and typically drastically reduced price (e.g., \$400/oz).

This method of lending gives some distinct advantages to Sandstorm. Chiefly, the firm incurs no exploration costs, can diversify its investment across dozens of mines, and can generate cash flow at a wide range of gold prices.

2. Strong existing portfolio

Sandstorm already has 60 royalty arrangements and 10 streams; of these, 84% of deal with gold, while the remainder is related to diamonds and other metals. Over 50% of Sandstorm's cash flow is generated from mines operated by world-class mining companies. These include recognizable names such as **Rio Tinto**, **Glencore Xstrata**, and **Yamana Gold Inc.**

3. Well positioned for future growth

Unlike most cash-strapped miners, Sandstorm has significant financial flexibility and few debt obligations to service. The company currently has no long-term debt and over \$90 million in cash. Sandstorm also has \$100 million of unused credit lines to put toward further acquisitions at depressed prices.

The current investment portfolio should also generate ample cash to plow back into additional deals or return to shareholders. At today's gold price (roughly US\$1,200/oz), Sandstorm anticipates generating between \$40-55 million annually in cash flows from previous investments.

And still cheaper than the rest

Based on 2017 cash flow projections (using Capital IQ estimates), Sandstorm currently trades at 8.1 times cash flow. Similar competitors are trading at much higher multiples. Both **Royal Gold Inc.** and **Silver Wheaton Corp.** are trading at around 15 times 2017 cash flows.

With a resilient business model and the financial flexibility required to capitalize in the current downtrend, Sandstorm Gold is an attractive pick in a troubled industry.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:SSL (Sandstorm Gold Ltd.)

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Date

2025/08/25

Date Created

2015/05/12

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