



Could Sandstorm Gold Ltd. Be the Next Silver Wheaton Corp.?

Description

In recent months one of the most successful precious metals streamers **Silver Wheaton Corp.**'s share price has been hammered, plunging a massive 51% over the last year. This can be attributed to the company battling a range of headwinds, including sharply weaker precious metal prices, an investigation by the Canadian Revenue Agency, and now a class action law suit.

Even after this sharp sell-off, Silver Wheaton has returned a monster 338% since listing in 2004. While it may now offer an attractive investment opportunity for investors, it is unlikely to give such stellar returns in the future, with it now being a mature business.

For investors looking for such a return they need to identify a company that is still emerging, that is making all the right moves, and has the potential to be the next Silver Wheaton, and that company is **Sandstorm Gold Ltd.** ([TSX:SSL](#))([NYSE:SAND](#)).

Now what?

Just like Silver Wheaton, Sandstorm Gold is a precious metals streaming company and, despite being only seven years old, is off to a strong start. It has amassed a globally diversified portfolio of 72 royalties and streams by targeting niche deals that are not of interest to the larger precious metal streamers like Silver Wheaton and **Royal Gold Inc.**

The company also has a long growth runway, with 58 of contracts comprised of development and exploration projects that will allow Sandstorm to achieve its goal of growing production to 50,000 ounces of gold annually by 2018.

By virtue of the royalty and streaming agreements, Sandstorm is able to obtain gold at prices far lower than the market price; its average cash cost per ounce for the second quarter 2015 was a mere US\$304. This is well below the current market price of US\$1,091 per ounce, and even if gold slides under US\$1,000 per ounce as analysts are predicting, Sandstorm can still generate a solid margin.

When this is considered in conjunction with its lower operating overheads, it can remain profitable in the current harsh operating environment dominated by weak gold prices.

Unlike its much larger peer Silver Wheaton, Sandstorm generates the majority of its revenue from gold with the rest coming from a mix of diamonds and base metals. This makes it a leveraged play on the price of gold rather than silver, which means it lacks access to the long-term secular tailwinds that will drive silver prices higher, such as growing demand for solar panels.

So what?

However, with its share price being hit hard because of the collapse in gold, which is down by a massive 55% over the last year, now is the time for the contrarian investor to consider taking a position. By virtue of its low-cost operating model and leveraged exposure to the price of gold, any slight bump in the gold price should translate into a solid appreciation in its share price.

Furthermore, as its business continues to mature and grow, its share price will increase, and given that it is far less mature than either Silver Wheaton or Royal Gold, this means it offers investors considerably more upside.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:SSL (Sandstorm Gold Ltd.)

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