3 Powerful Reasons Why Precious Metal Streamers Are Superior to Miners

Description

Precious metals have gone off with a bang as investors look to safe-haven assets in the wake of the Brexit and growing concerns over the health of the global economy. Even after softening in recent days, gold is still up by a massive 27% year to date, while silver is up by a massive 48%, and there are signs that higher precious metal prices are here to stay.

The surge in precious metals has triggered a tremendous rally among beaten-down gold and silver miners. The **Philadelphia Gold and Silver Index**–an index of 30 NYSE-listed gold and silver miners–surged by a massive 139% year to date. This can be attributed to industry heavyweights such as **Barrick Gold Corp.** (TSX:ABX)(NYSE:ABX) more than doubling in value over that period.

With signs that higher precious metals prices are here to stay, now is the time for investors to hedge their bets and add some gold and silver to their portfolios.

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Now what?

Despite the impressive performance of gold- and silver-mining stocks, precious metal streamers such as **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and **Franco Nevada Corp.** (TSX:FNV)(NYSE:FNV) offer superior exposure to precious metals for three powerful reasons.

Firstly, they offer the same leveraged exposure to gold and silver as the miners but without the same costs or risks.

Mining is a hazardous and costly business with a complex array of moving parts where many things can and do go wrong, incurring considerable costs. An example of this is Barrick, which paid the price for loading up on debt to acquire poor-quality assets just as the gold bull market was deflating. For these mistakes, its share price plunged to its lowest in decades as it battled to meet its financial obligations and was forced to write off uneconomic assets.

Streamers do not face these risks because they don’t engage in mining activities. Instead, they provide financing to miners in exchange for a royalty or a proportion of the precious metals produced at well below market prices. This, along with their significantly lower cost structures, makes them far lower-risk investments.

You only need to look at Silver Wheaton’s first-quarter 2016 results to see this. For that period it reported cash costs of US$4.44 per ounce, well below the US$5-14 per ounce posted by primary silver miners.

Secondly, precious metal streaming agreements usually exist for the duration of the mine’s life and are attached to the mine rather than its operators. This is particularly important because it significantly reduces the risk associated with these contracts.

Even in the event of bankruptcy or if the operators of the mine change, the contract still stands, ensuring that the streamer receives the quantities of gold or silver that have been agreed on.

Finally, streamers–unlike miners–are more easily able to diversify their investments across a number mines, geographical locations, and jurisdictions.

This is a particularly important tool for managing risk because it reduces their dependence on a single asset. Franco Nevada has 212 streaming and royalty agreements spanning four continents and an array of jurisdictions with projects in variety of different stages of development.

Meanwhile Barrick, the world's second-largest gold miner has only 11 gold mines with five of those responsible for 70% of its production. This makes its gold production and revenues susceptible to outages caused by operational, regulatory or jurisdictional problems.

So what?

It is easy to see why precious metal streamers are superior investors to gold miners because they are significantly lower-risk investments that still offer the same leveraged exposure to gold and silver. This along with higher gold and silver prices makes them an attractive addition to any portfolio.

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1. NYSE:B (Barrick Mining)
2. NYSE:FNV (Franco-Nevada)
3. TSX:ABX (Barrick Mining)
4. TSX:FNV (Franco-Nevada)
5. TSX:WPM (Wheaton Precious Metals Corp.)

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Date
2025/09/18
Date Created
2016/07/14
Author
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