3 Reason to Buy Sandstorm Gold Ltd.

Description

Gold has shot back into the limelight in recent months with a spectacular rally that sees it up by 27% for the year to date and now trading close to its highest price since March 2014. This has triggered considerable interest in the beaten-down gold-mining industry. A number of miners have rallied strongly in recent months, causing the **NYSE Arca Gold Bugs Index** to surge by a massive 153% for the same period.

One attractive means of gaining exposure to gold is with precious metals streamer **Sandstorm Gold Ltd.** (TSX:SSL)(NYSE:SAND); it has many characteristics that make it a superior option to the gold miners.

Now what?

Firstly, Sandstorm offers the same leveraged exposure to gold as the miners, but does so with a considerably lower degree of risk.

This is because as a precious metals streamer it does not engage in high-risk mining activities or operate the mines from which they derive their precious metals production.

Instead, Sandstorm provides financing to miners in return for receiving a royalty on each ounce of gold produced, or the right to buy a share of that production at a price that is far lower than gold's market price.

Secondly, because of its operating structure and the fact that it doesn't operate mines, Sandstorm has far lower costs than the miners.

For the second quarter 2016, Sandstorm reported cash costs of US$261 per ounce, giving it a cash operating margin of US$994 per ounce. These are far lower than the miners, even lower than **Barrick Gold Corp.,** which has the lowest costs among the major miners; it reported second-quarter 2016 cash costs of US$578 per ounce, or just over double Sandstorm's costs.

With gold trading at over US$1,300 per ounce since the end of June 2016, Sandstorm's margins have grown, and this should translate into healthy bump for its third-quarter bottom line.

Sandstorm continues to maintain a solid balance sheet and build its asset base.

Finally, an important attribute of any gold miner or precious metals streamer is the ability to grow production while maintaining a solid low-risk balance sheet.

During the second quarter, it completed a US$57.5 million equity raising and used the proceeds to pay off its revolving line of credit, leaving it with essentially no debt. It did, however, retain the revolving credit facility, and Sandstorm now has the entire US$110 million of the facility available to make acquisitions.

It also continues to build its asset base, acquiring a royalty package comprised of 56 royalties from **Teck Resources Ltd.** for US$22 million in January 2016. This deal added roughly $2 million in cash flow and over one million ounces of gold reserves as well as considerable growth opportunities; the majority of the agreements are for mines that are under development or in the stage of advanced exploration.

This growth potential, according to Sandstorm, should see the cash flow from the package increase to between US$10 million and US$15 million annually as the various projects commence production, helping to further growth it’s bottom line.

So what?

The likes of **Franco Nevada Corp**. and **Silver Wheaton Corp.** have proven just how effective precious metal streamers can be as an investment and that they are a lower-risk levered play on precious metal prices.

Sandstorm’s business is relatively new, having commenced operations in 2009. While this means that it’s far less mature than Franco Nevada and Silver Wheaton, which introduces a greater degree of risk for investors, it also means that the reward is higher because it possesses greater growth potential. Because it has leveraged exposure to gold, it is an attractive addition to any growth-oriented portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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