

Why Now Is the Perfect Time to Buy Precious Metals Stocks

Description

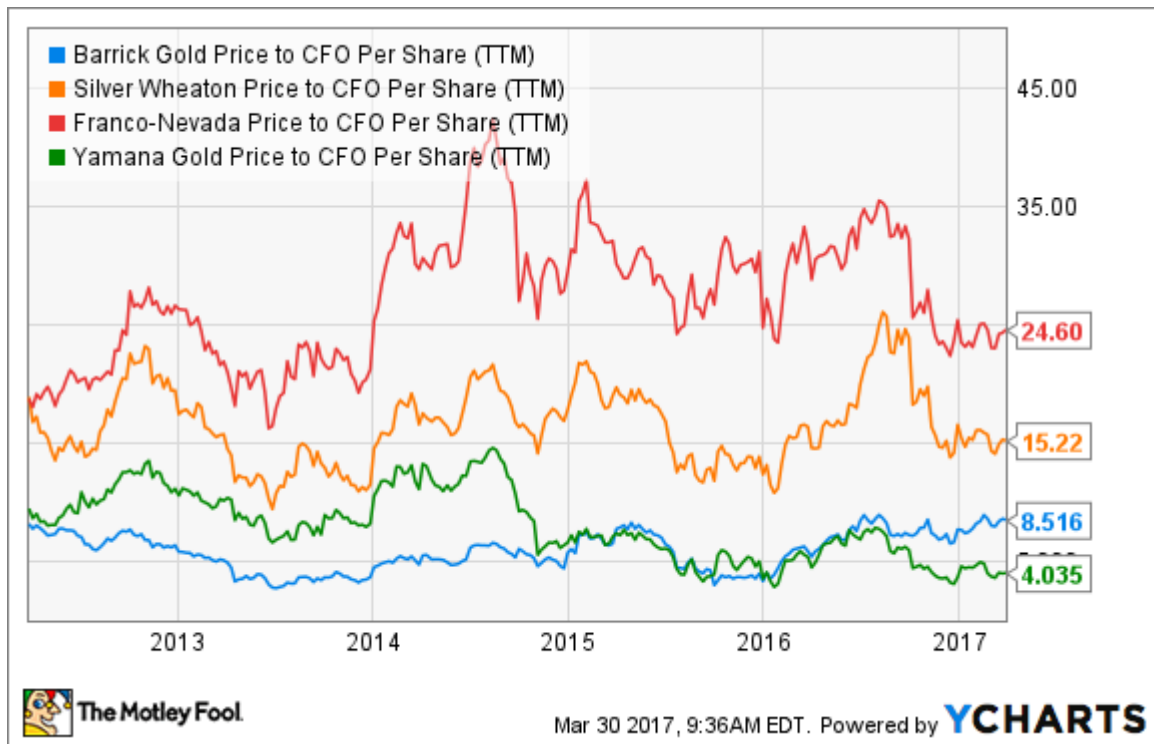
With the stock markets fraught with uncertainty, investors are worried about what could happen to their portfolios if the markets tumble. An offbeat way to reduce your portfolio risk is to consider precious metals stocks.

Precious metals stocks can be volatile as their fortunes are linked directly to the prices of metals like gold and silver. However, gold and silver are also considered safe-haven investments, especially in a choppy global environment. So, gold and silver, and hence, precious metals stocks, usually perform well during bear markets.

Let me warn you, though: prudent investors should avoid speculation and invest only in fundamentally strong stocks.

While macro factors look favourable, I believe the time is ripe to consider gold miners such as **Barrick Gold Corp** ([TSX:ABX](#))([NYSE:ABX](#)) and **Yamana Gold Inc.** ([TSX:YRI](#))([NYSE:AUY](#)) or silver streamers such as **Silver Wheaton Corp.** ([TSX:SLW](#))([NYSE:SLW](#)) and **Franco Nevada Corp.** ([TSX:FNV](#))([NYSE:FNV](#)) because each of these companies is going all out to expand production, cut costs, and strengthen their financials.

Moreover, these stocks are trading close to or below their five-year average price-to-cash flow (P/CF) ratios.



Take Barrick Gold, for example, which made a remarkable turnaround last year by slashing its all-in sustaining costs, or AISC, and lowering debt by almost US\$2 billion. An AISC of US\$730 per ounce of gold makes Barrick the lowest-cost gold producer today.

As a reminder, AISC is a comprehensive cost metric used by gold miners that includes key elements of operating expenses. Barrick's trailing 12-month free cash flow (FCF) is more than double its net income, which is a rarity in most industries, let alone the precious metals sector.

Comparatively, Yamana Gold has a pretty high AISC of around US\$911 per ounce on co-product basis, but its cash flows are poised to improve substantially going forward as it brings its seventh mine, Cerro Moro, online by early 2018. It's deleveraging using proceeds from sale of non-core assets or from its stake in its recently spun off subsidiary **Brio Gold Inc.** (TSX:BRIO). At merely four times P/CF, Yamana is an incredibly cheap stock today.

Silver Wheaton is another fantastic stock to consider. As I recently [highlighted](#), Silver Wheaton delivered solid profits and cash flows in 2016 and also bumped up its dividend. As a streaming company, it doesn't own mines; it buys metal streams from miners like Barrick at discounted prices in exchange for funding them up front, so Silver Wheaton already enjoys solid margins. With the company estimating gold to average 45% of its total production through 2020, it's among the best precious metals stocks today.

Franco Nevada, another streaming company, is also the most diversified with exposure to gold, silver, platinum, and oil. Franco Nevada delivered solid production numbers for 2016, is FCF positive, and has raised its dividend for nine consecutive years. With production expected to grow double digits in the next five years, Franco Nevada looks poised to be a winner in the long run.

All these stocks make for great additions to the portfolios of long-term investors, especially in today's uncertain times.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

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