



Wheaton Precious Metals: Is This Mining Company Worth Buying?

Description

Silver Wheaton Corp., recently renamed **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)), is a unique precious metal mining company that doesn't actually operate its own mines; it's a streaming company.

This means that it acts as a financier for miners. The vast majority of silver is actually found as a by-product of mines set up to look for different commodities, such as a copper. In exchange for the funds, Wheaton Precious Metals has the right to acquire any found silver or gold at a serious discount.

How serious of a discount?

In 2016, Wheaton Precious Metals paid US\$4.42 per ounce of silver and US\$391 per ounce of gold. This resulted in the company being able to generate strong adjusted net earnings for 2016 of US\$0.62 per share versus \$0.53 in 2015. That's because it was able to sell an ounce of silver for US\$16.96 and an ounce of gold for US\$1,246. On silver, that's a margin of US\$12.54 per ounce; on gold, it's a margin of US\$855 per ounce.

The massive growth in gold production convinced management to rename the company. It had record gold production of 353,000 ounces, up 46% from 2015. Silver production was down by 1%, resulting in over 30 million ounces. Clearly, the company financed the correct mines with all of that silver and gold hitting the books.

Thanks to such a strong quarter, Wheaton Precious Metals was able to increase its dividend from \$0.01 to \$0.07. It pays out its dividend based on 20% of the average operating cash flow from the previous four quarters. Because of the big boost in gold sales, its cash flow for 2016 was much stronger.

Is it worth buying?

An investment in Wheaton Precious Metals is an investment in gold and silver; therefore, if you're going to put your money into this company, it's important to have faith in the underlying commodities.

There are a couple variables to consider.

First, how much fear is there around the world? With the U.S. dollar weakening, it's possible that people will move their money into traditional stores of value, such as gold. And with economic uncertainty stemming from Brexit, I anticipate gold prices to remain relatively strong. Second, if there continues to be strong investment in solar power and electronics, the demand for silver will rise.

Personally, Wheaton Precious is my favourite way to gain exposure to the precious metals space. It doesn't carry the inherent risk that traditional mines have, but it's still able to generate strong margins. And after such a strong 2016, the dividend makes the company interesting. It's not a dividend juggernaut by any means, but the \$0.01 to \$0.07 increase makes it worth considering.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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