

No One Wants to Be in Gold or Silver Right Now: Should You?

Description

Gold and silver prices are volatile. However, they have been viewed as safe havens in the past. They can be added as a small percentage of, say, 5% to a diversified portfolio. With the recent pullback in gold and silver prices, it may be a good time to consider precious metals companies.

One low-risk way of gaining exposure to the precious metals is via **Wheaton Precious Metals Corp.** ([TSX:WPM](#))([NYSE:WPM](#)). If that name is new to you, it may be because the company changed its name and tickers in May. You may be familiar with its former name and tickers: Silver Wheaton (TSX:SLW)(NYSE:SLW).

A business overview

Wheaton Precious Metals is the world's biggest silver and gold streaming company. It has long-term agreements (nearly 20 years) with 21 operating mines to pay an upfront cost for a fixed percentage of the silver or gold by-product that they produce. Most contracts have small adjustments for inflation.

The streaming company has 70% of its production coming from the lowest-cost mines in the first quartile and 29% of the production coming from the second quartile.



How much does Wheaton Precious Metals pay for the shiny metals?

Typically, Wheaton Precious Metals pays US\$4-6 per ounce of silver and about US\$400 per ounce of gold.

Compare that to the spot prices of silver and gold which sit much higher at about US\$16.50 and US\$1,240 per ounce, respectively.

Low risk with upside potential

What Wheaton Precious Metals pays for gold and silver greatly lowers the streaming company's risk as

an investment compared to precious metals miners, which have larger investments and costs required to explore or operate the mines.

Wheaton Precious Metals will head higher when precious metals prices rise.

How do the return prospects look?

Currently, the shares trade at the low end of its trading range since May 2016. At about \$25.40 per share, Wheaton Precious Metals trades at an estimated price-to-cash flow ratio of about 16.4 for this year, which is a reasonable multiple to pay for the shares.

In fact, the analysts at **Thomson Reuters** have a consensus target of US\$27.70 per share on the stock, which represents upside potential of approximately 44%.

Additionally, Wheaton Precious Metals offers a yield of about 1.5%, which will add to returns. Since its dividend per share is “equal to 20% of the average cash generated by operating activities in the previous four quarters divided by the company’s outstanding common shares at the time the dividend is approved,” as stated on the company’s website, the stock’s dividend may fluctuate.

Investor takeaway

Wheaton Precious Metals is a low-risk investment to gain exposure to upside potential of silver and gold prices. It’s reasonably priced today. Interested investors can consider buying some now and more if it dips further.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. TSX:WPM (Wheaton Precious Metals Corp.)

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