Time to Buy Wheaton Precious Metals Corp.

Description

Despite registering a significant improvement over the past two years, precious metal stocks remain highly volatile investment options. That market volatility is largely due to several factors, such as the emergence of crypto currencies such as Bitcoin and Ethereum, the unexpected Brexit vote fallout, and the even more unexpected and unpredictable administration in Washington.

Streaming companies represent a way to invest in the precious metals sector without many of the risks associated with traditional miners.

One streaming company that is worth considering as part of your portfolio is **Wheaton Precious Metals Corp.** (TSX:WPM)(NYSE:WPM).

How do streamers differ from traditional miners?

Streaming companies offer an alternative to the traditional precious metal investment option, as streamers don't own or operate any of the mines, which significantly reduces expenses and risk.

What streamers provide is upfront financing to the traditional miners, who in turn set up operations and begin the process of mining. In exchange for that upfront injection of capital, streamers are allocated a certain amount of the metals that are extracted from that mine, which can be purchased at significantly discounted costs.

Once purchased, the streamer can then sell the gold off at the going market rate, realizing a profit.

In terms of how discounted that initial rate is, streamers are typically charged in the range of US$400-450 per ounce for gold, and US$4 per ounce for silver. By way of comparison, the market rate for selling gold is approximately US$1,290 per ounce, and silver trades at US$18 per ounce.

Wheaton's recent quarterly results: Impressive?

Wheaton recently provided a quarterly update to investors, which saw the company post US$200 million in revenue for the second fiscal quarter, which was a 6% decrease over the US$212 million reported in the same quarter last year.

Operating cash flow for the quarter rose to US$125 million, or US$0.28 per share, also down over the same quarter last year. Net earnings for Wheaton in the second quarter rose to US$68 million, or US$0.15 per share, beating the US$60 million, or US$0.14 per share, reported in the same quarter last year.

In terms of production, Wheaton produced 78,100 ounces of gold and 7.2 million ounces of silver during the quarter compared with 71,000 gold ounces and 7.6 million ounces of silver produced in the same quarter last year, resulting in a 5% decrease in silver production, offset by a 10% increase in gold production. From a pricing standpoint, the average price per ounce for that production was US$17.09 for silver and US$1,263 for gold.

One of the biggest updates for investors in the most recent quarter was that Wheaton upped the dividend payout to 30%, resulting in a hike of the dividend, which now stands at $0.13 per share and provides an impressive 2.11% yield.

Is Wheaton a good investment?

Critics of Wheaton note that during the most recent quarter the company didn’t realize any significant growth and there was no sign any large new deals. Similarly, Wheaton’s debt, which now stands at US$953 million, is something that should be monitored, as it could hinder new deals from materializing in the future.

There’s also the ongoing production issues at several mines that saw decreased production in the quarter. The San Dimas mine saw a decrease in silver production by 39% when compared to last year; this decline largely attributed to worker strikes and higher costs. San Dimas was Wheaton’s best-performing mine.

While these are all valid points, the fact remains that Wheaton continues to generate cash, grow earnings, and, in my opinion, be an excellent investment opportunity for the longer term.

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Date
2025/08/24
Date Created
2017/08/29
Author
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