Gold Bulls: Wheaton Precious Metals Corp. Is the Stock to Own Right Now

Description

With gold prices firming up, it's still not too late to buy some gold stocks. One value name that you can go after is **Wheaton Precious Metals Corp.** (TSX:WPM)(NYSE:WPM).

Wait. Isn't Wheaton Precious Metals a silver producer? Yes and no. Today, gold forms a bigger part of the company's portfolio than ever before. When you consider that alongside Wheaton's offbeat business model, which leverages its profits to gold prices at lower risks, you know you have a winner gold stock in the making.

On a stronger footing than gold miners

It is important to understand how Wheaton makes money. Unlike miners, like **Barrick Gold Corp.**, Wheaton does not own or operate any mines. Instead, it enters "streaming" agreements with miners like Barrick, in which it buys gold and silver streams from them at reduced prices in exchange for funding the miners up front.

To put it simply, Wheaton pays a lump sum to a miner and secures the right to buy precious metals in return. It's a double-dip advantage for Wheaton: it doesn't have to bear the humongous costs associated with mining, and it gets gold and silver at prices substantially below spot rates.

For perspective, the company's operating cost (its purchase cost) has historically averaged only US$400 per ounce of gold, allowing it to earn hefty average cash operating margins north of 70% since 2009. With its gold portfolio expanding, investors in the yellow metal can't afford to ignore Wheaton stock anymore.

A well-timed gold bet

Wheaton's portfolio has undergone a change in recent years, with its exposure to gold rising substantially. This is why the company recently dropped the word *silver* from its name.

By 2021, Wheaton projects gold to make up 45% of its average production (the metal streams it buys from miners). Wheaton's streaming agreement with mining giant **Vale** is a key step towards the goal.

Last year, Wheaton extended its agreement with Vale, which entitles it to buy an additional 25% of the gold produced over the above the earlier 50% agreed upon from Vale's high-profile copper mine Salobo (gold is a key by-product from the mine).

Wheaton perfectly timed its deal with Vale — deliveries from Salobo should plug the gap created by Wheaton's expiring streams, allowing the company to not just maintain its gold equivalent ounces, but boost it in coming years.

An income and value buy

For investors, Wheaton offers a perfectly balanced exposure to gold and silver. More importantly, low streaming costs translate into strong margins and predictable cash flows, which is also why Wheaton is among the best dividend stocks in the precious metals industry.

In fact, Wheaton is so confident about its future cash flow growth that it increased its dividend by a whopping 43% last quarter. Note that Wheaton doesn't pay a fixed dividend, but it pays out a quarterly dividend equal to 20% of its average operating cash flows for the trailing four quarters. Last quarter, management bumped that up to 30%, effectively increasing dividends by ~40%.

The investing thesis for Wheaton can't get any stronger — expanding production should mean higher cash flows and dividends for investors in coming years. With the stock shedding nearly 12% value in the past three months and gold prices heading north, there couldn't be a better time to add Wheaton Precious Metals to your portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Investing
2. Metals and Mining Stocks

Tags

1. Editor's Choice

Date
2025/08/20
Date Created
2017/09/27
Author
nehams