Is Wheaton Precious Metals Corp. What Your Portfolio Is Missing?

Description

With the price of gold slowly creeping up, investors have been considering whether or not to add miners to their portfolios. I'd like to offer an alternative that reduces the risk that comes from owning a miner and provides a higher-margin opportunity. That alternative is **Wheaton Precious Metals Corp.** (TSX:WPM)(NYSE:WPM).

Unlike a traditional mining firm that digs in the hopes of finding treasure, Wheaton acts as the financier for potential miners. Known as streaming, this is a model where Wheaton funds the initial launch of the mine and, in exchange, it gets to purchase any gold and/or silver found for much cheaper than market prices.

But why would a miner give up the gold and silver for so much cheaper? Quite a bit of the gold found today doesn't come from a dedicated gold mine, but instead it's found as a by-product for another commodity, like copper. So, if a miner wants to launch a copper mine and finds gold in the process, they keep the copper and sell the gold for cheap. Win-win.

And how is Wheaton doing?

Quite well, actually. Wheaton "produced" 78,100 ounces of gold and 7.2 million ounces of silver during the second quarter compared to 71,000 ounces of gold and 7.6 million ounces of silver in the same quarter last year. On one hand, silver production was down, but on the other, gold was up.

During the quarter, Wheaton paid US$4.51 per ounce of silver and US$393 per ounce of gold. It sold each ounce of silver for US$17.09 and each ounce of gold for US$1,263. This is a demonstration of just how wide the margins are for Wheaton.

There is a negative, though. Despite a nice boost in production, Wheaton's revenue dropped by 6% to US$200 million compared to the previous year. Operating cash flow was also down from the last quarter to US$125 million. Wheaton's net earnings did beat last year, coming in at US$68 million — an improvement of US$8 million.

Why the drop?

Wheaton is highly dependent on strong gold and silver prices. The higher these are, the more the company can make. Ultimately, that's a risk investors have to take into consideration. Will these commodities increase in price over the next few years? If so, the margin will only improve, providing Wheaton Precious Metals with a very nice return.

Nevertheless, I believe that Wheaton is the best bet for exposure to the market. When investors grow concerned with the market, they tend to run to gold. That will push the price up, potentially offering a nice return for investors of Wheaton.

And, along the way, you can earn an attractive dividend. Wheaton already boosted the dividend by 43% last quarter. However, one word of note about the dividend: it's not fixed; rather, it's a distribution that is equal to 20% of the average operating cash flows for the trailing four quarters. If margins improve, operating cash flows will improve, and the dividend will follow.

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