3 Reasons to Buy a Precious Metals Streamer

Description

Buying into precious metal stocks or, more specifically, miners is often a lucrative affair. In the years leading up to 2011, gold prices were at all-time highs just shy of US$1,900 per ounce before crashing in an epic fashion to lows of sub-US$1,100 per ounce several years later.

Gold prices have since recovered and are now trading above US$1,300 per ounce. After the crash came a renewed emphasis on streamers by investors.

Streamers such as **Wheaton Precious Metals Corp.** (TSX:WPM)(NYSE:WPM) offer investors a unique alternative to the volatility and risk of traditional miners.

Streamers offer a different approach that still reaps the rewards of traditional miners. Streamers provide upfront capital for traditional miners, who use that capital to help start mining operations.

In exchange for that upfront investment, streamers can buy a certain amount of the metal extracted from the mine at highly discounted rates. Streamers can then sell those metals for the full market rate, which more than compensates for that initial investment.

In terms of that discounted rate, it can be as low as US$400 per ounce for gold and US$4.70 per ounce for silver. By way of comparison, the current market rate of gold and silver are US$1,330 and US$16 per ounce.

What makes streamers like Wheaton a great investment? Here are a few reasons that potential investors should consider.

Streamers are well diversified

Because streamers are only required to provide that upfront injection of capital, they can move on to the next project with little worry of the day-to-day operations that traditional miners are concerned with.

In the case of Wheaton, that arms-length arrangement has worked well in allowing the company to branch out into multiple active projects at once. Wheaton has 20 active mines on three continents with a further nine in development. This provides an immense amount of flexibility, particularly in the case that one mine is forced to shut down temporarily or is subject to conditions resulting in reduced production, as was the case in the most recent quarter.

That discounted price is too good to pass up

The discounted price that Wheaton gets for precious metals from miners is a compelling reason to invest. That locked-in price ensures that if in the event there is a boom or crash in precious metals, Wheaton will still have wide margins to fall back on.

Another reason has to do with the spot prices for precious metals. Demand is steadily increasing for both gold and silver, fueled by a variety of factors ranging from interest rate increases to emerging cryptocurrencies such as Bitcoin challenging gold for the coveted store-of-wealth status.

Outside these factors, industry experts are now calling for gold to appreciate to above US$1,400 per ounce during 2018.

Wheaton is an interesting dividend play

While many investors may not realize it, Wheaton offers a compelling case as a dividend investment. The company has increased its dividend in recent years and tied the payout level to 30% of the average cash generated from operations in the preceding year.

The current payout, which is the highest among streaming companies, amounts to a respectable 1.67% yield, which, if reinvested, could prove to be significant over several years.

Investors looking for a precious metals investment that is lower risk than traditional miners would do well buying into Wheaton.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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