



## Are Precious Metals Streamers Better Investments Than Miners?

### Description

Firmer gold prices and an [improved outlook](#) for the yellow metal have brought the spotlight firmly back on gold miners with many having rallied in recent months. While miners offer a viable means of gaining exposure to the yellow metal, precious metals streamers such as **Wheaton Precious Metals Corp.** ([TSX:WPM](#))([NYSE:WPM](#)) are a superior investment. This is because they not only offer levered exposure to gold like the miners, but they are less risky because of specific differences in their business model.

### Now what?

Firstly, streaming companies have lower expenses than miners, which helps boost profitability and reduces the impact of weaker precious metals prices when there is a downturn in the market.

You see, mining is a capital-intensive activity, which involves significant costs across its life cycle to find and extract the gold while maintaining production levels. These costs are not entirely predictable and can blow out at any given moment, eating into margins and a miner's profitability.

Precious metals streamers are not involved in mining, but rather they act as financiers for gold and silver miners. In exchange for providing upfront financing, they receive the right to a royalty payment on every ounce of gold or silver produced, or the right to acquire a portion of a miner's production at a price well below the market value.

As a result, their costs are fixed, making them far more predictable and lower than those incurred by miners.

In the case of Wheaton Precious Metals, its average cash cost for each gold ounce produced during the third quarter 2017 was US\$396. This is lower than many miners, including **Barrick Gold Corp.** ([TSX:ABX](#))([NYSE:ABX](#)), which is reputed to have the lowest cash costs of any of the major miners, reporting \$521 per ounce for the full year 2017.

Secondly, streamers have far more diversified portfolios, reducing the risk of lost earnings because of production outages and shutdowns.

Mining is an inherently risky and heavily regulated activity with many moving parts that can fail, creating operations disruptions that impact production volumes and hence earnings.

Streaming companies can significantly mitigate this risk by constructing highly diversified portfolios of streaming, royalty, and offtake agreements across different mines and jurisdictions. This means they are not dependent on a single or a small number of mines to generate most of their precious metals production or earnings.

As witnessed with the [events surrounding Tahoe Resources Inc.'s](#) (TSX:THO)(NYSE:TAHO) Guatemalan Escobal mine, which was responsible for almost half of its revenue, this is a very real risk. Operations at Escobal have not restarted since the mine's licence was suspended in July 2017, virtually wiping out Tahoe's silver production and sharply impacting earnings.

Wheaton, however, has 24 streaming agreements across 20 operational mines and nine development projects, allowing it to purchase silver and gold produced at prices well below the market price.

**Franco Nevada Corp.** ([TSX:FNV](#))([NYSE:FNV](#)) not only offers exposure to gold and silver, but it also has exposure to oil and gas with interests in 61 producing hydrocarbon assets. This has been a boon for the company since oil rallied earlier this year with West Texas Intermediate trading at over US\$60 per barrel.

Finally, streaming agreements are typically attached to the mine and not the operator. This significantly reduces risk for streaming companies, because in the event of the miner going bankrupt or the asset changing hands, the agreement still stands.

### **So what?**

Streamers offer the same levered exposure to gold and silver like miners, but they have significantly less risk, making them a superior means of gaining exposure to precious metals. Franco Nevada is shaping up as an interesting investment. It is not only benefiting from firmer gold prices, but also from the rally and improving outlook for crude. These factors should bolster 2018 earnings, causing Franco Nevada's stock to appreciate significantly over the course of the year.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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1. NYSE:B (Barrick Mining)
2. NYSE:FNV (Franco-Nevada)

3. NYSE:WPM (Wheaton Precious Metals Corp.)
4. TSX:ABX (Barrick Mining)
5. TSX:FNV (Franco-Nevada)
6. TSX:WPM (Wheaton Precious Metals Corp.)

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