Why This Streamer Is Going to Have a Very Good Year

Description

Precious metal streaming companies, such as **Wheaton Precious Metals Corp.** (TSX:WPM)(NYSE:WPM), hold massive appeal and opportunity for investors that are looking to enter the volatile, yet lucrative precious metals market.

New and seasoned investors may realize that there are significant differences between a streamer and a miner, but they may not understand how that difference can translate into massive gains.

The streaming business model

Wheaton doesn't actually mine any precious metals. As a streamer, Wheaton provides an upfront injection of capital to a traditional miner, who will then build the required infrastructure to get the mine operational.

In exchange for that upfront financial injection, the streamer receives a portion of the metals extracted from the mine at a massively discounted price. In case you're wondering, that discounted price can be as low as US$400 per ounce for gold and US$4.50 per ounce for silver.

The streamer can then sell the discounted metal at the current market rates, which, at time of writing, is near US$1,320 per ounce for gold and US$16.50 per ounce for silver.

That's a handsome profit for a business that is lower risk than a traditional miner, and the arms-length arrangement between the streamer and miner allows the streamer to move on to the next project and let the traditional miner handle the day-to-day operations.

Overall, the streaming model provides a less-risky and more diversified approach to investing in precious metals mining, while you can still enjoy the benefits of investing in a traditional miner.

Wheaton Precious Metals

Wheaton is the largest streaming company in the world, with 20 active mines scattered across the world and a further nine in development. Over the course of fiscal 2017, those mines produced 28,646 ounces of silver and 355,104 ounces of gold, which Wheaton then sold on for an average price of US$17.01 per ounce of silver and US$1,257 per ounce of gold.

One of the most intriguing parts of Wheaton has to do with the dividend the company offers. Unlike most other companies that provide a static yield, Wheaton’s dividend is based on 30% of the average cash flow from the previous four quarters. At current levels, this amounts to an impressive 1.68% yield, which is at least double the amount that traditional miners with static yields can offer.

This factor alone may be reason enough for investors shopping the precious metals market to make an investment, but there’s still another potential opportunity: growth.

Wheaton has transitioned over the past few years to move beyond being a silver-focused streamer to one that includes other metals, notably gold. While that transformation is arguably complete when viewing the production values for gold and silver, there are still other gold-focused facilities coming online over the next few years that should push those numbers higher still.

There’s also the price of gold itself to take into consideration. Over the past two years, gold prices have started to ascend once again after nearly half a decade of decreased costs.

Two years ago, the price of gold was ~US$1,100 per ounce, and gold pundits are calling for the metal to hit US$1,400 per ounce or higher this year, fueled by political and environmental crises across the globe that attract long-time gold investors seeking shelter. Cryptocurrencies have also weighed in on gold investments recently, challenging the long-held notion of gold serving as a store of wealth.

In my opinion, investors contemplating a precious metals investment will find Wheaton a great long-term option.

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