

## 3 Reasons Why Precious Metals Streamers Are Better Investments Than Miners

### Description

Gold and silver have [weakened sharply](#) in recent weeks to be down by 8% and 17% for the year to date, respectively. This sees the yellow metal trading at close to US\$1,200 per ounce, while silver is hovering at around US\$14 an ounce. This has had a sharp impact on the fortunes of precious metals miners, causing the **Van Eck Gold Miners ETF** to shed 19%, while the **Global X Silver Miner's ETF** has lost a whopping 30% over that period.

This has led to considerable speculation that now is the time for contrarian investors to bolster their exposure to gold and silver. While precious metals miners are one way of gaining exposure, streamers such as **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)) offer a superior means of doing so. They not only offer leveraged exposure to precious metals prices like miners but are also less risky because of considerable differences in their business model.

### Lower costs

Mining is a costly activity, which requires the investment of considerable amounts of capital across its life cycle to find and extract precious metals so as to maintain production volumes. Those capital requirements as well as expenses are not entirely predictable. They can blow out at any moment, thereby eating into a miner's margins as well as profitability.

Streamers typically provide finance to miners in exchange for the right to buy the gold or silver produced at a value that is significantly less than the spot price, or they receive a royalty on every ounce produced. This means that not only are their costs lower than miners, but they are also fixed, making them far more certain. This makes it possible for streamers to remain profitable at spot precious metals prices that would cause many miners to incur a loss.

When reviewing Wheaton's third-quarter 2018 results, this becomes quite clear. It reported an average cash cost of US\$418 for each gold ounce produced. This is compared to **Barrick Gold**, which as one of the lowest-cost operators among its peers reported US\$587 per ounce produced. This illustrates the considerable profitability of Wheaton's business, even if gold and silver prices remain soft.

### Greater diversification

A precious metals streamer like Wheaton is able to more thoroughly diversify its portfolio than a miner, thereby reducing the risks associated with production outages. Mining is an inherently risky and heavily regulated activity with many moving parts that can fail, triggering operational disruptions that can impact production and earnings.

The situation facing **Tahoe Resources** ([TSX:THO](#))([NYSE:TAHO](#)) in Guatemala is an example of what can occur when a miner is highly dependent on a single asset to produce most of its precious metals

output and earnings. Tahoe's flagship Escobal mine has [been shuttered](#) since mid-2017 after its licence was suspended by local courts, thereby having a notable impact on Tahoe's earnings. It reported a third-quarter 2018 net loss of \$0.06 per share, which was triple the loss posted a year earlier, and there is no clear sign of any resolution regarding the Escobal operation being achieved at this time.

A streamer like Wheaton can significantly mitigate this risk by building a highly diversified portfolios of streaming, royalty, and offtake agreements across different mines and jurisdictions. It has amassed a portfolio of 23 streams, royalty, and offtake agreements across 20 operational mines and nine development projects. This means that Wheaton is not dependent on a single mine for the majority of its precious metals output or earnings.

## Significantly reduced financial risk

There is significantly less financial risk associated with investing in precious metals streamers, because streaming agreements are typically attached to the mine and not the operator. Even in the event of the miner going bankrupt or the asset changing hands, the streaming agreement still stands. Bankruptcy, debt restructurings, and the fire sale of assets are common events in the precious metals mining industry, because of the considerable financial and operational hazards that exist.

## Why invest in precious metals streamers?

Gold and silver's sharp decline has created an opportunity for contrarian investors seeking to increase their exposure to precious metals. Among the most attractive means of doing so is Wheaton. It offers the same levered exposure to precious metals as a miner but with considerably less risk.

Wheaton has substantially diversified its assets in recent years, bolstering its exposure to gold, while recently adding palladium. For the first nine months of 2018, the streamer reported record gold production, and that it is on track to meet its full-year 2018 guidance. Unlike gold or silver bullion and many miners, Wheaton rewards loyal investors with a regular sustainable dividend yielding just under 2%.

### CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

### TICKERS GLOBAL

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

### PARTNER-FEEDS

1. Msn
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**Date**

2025/07/01

**Date Created**

2018/11/15

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