



This Underappreciated Stock Is the Top Precious Metals Streamer to Buy for 2019

Description

After surging to its highest price since May 2018, gold has pulled back sharply in recent days because of renewed optimism for the global economic outlook and for stocks. This doesn't mean that the [gold bull market](#) is over, with a range of indicators, key being growing economic and geopolitical uncertainty, pointing to firmer gold during 2019. That will act as a powerful tailwind for many gold stocks with one of the most attractive being precious metals streamer **Sandstorm Gold** ([TSX:SSL](#))([NYSE:SAND](#)). While gold has declined by around 1% over the last year, Sandstorm has gained 13%, and there are signs that the streaming company will move higher.

Quality diverse portfolio of precious metal assets

Sandstorm recently announced record 2018 gold sales of 57,600 ounces, which places it firmly within its annual production guidance of 56,000-60,000 ounces. That — along with the recent bounce in gold — will give Sandstorm's 2018 full-year earnings a healthy lift. For 2019, the company is forecasting production of 70,000 gold ounces, which is more than 21% greater than 2018.

Since 2009, Sandstorm has amassed a portfolio of over 187 royalty and precious metals streams, the latest being an almost US\$33 million, 0.9% net smelter return royalty on **Lundin Gold's** [Fruta del Norte](#) project in Ecuador. That project is one of the highest-quality large-scale ore bodies currently under development globally. This solid portfolio will support the company's plans to expand its production to 143,000 gold equivalent ounces by 2023, which it estimates will generate after-tax cash flow of US\$121 million compared to around US\$68 million in 2019.

The risks associated with Sandstorm's portfolio are relatively low and significantly less than those connected to gold miners. This isn't only because the streamer doesn't engage in hazardous mining activities but also because that portfolio of streaming and royalty agreements is highly diversified by jurisdiction, company, and asset. That means, unlike most intermediate and junior miners, it doesn't have a key dependency on any single producing asset or property, mitigating the risk of production declines caused by operational outages.

Furthermore, Sandstorm is focused on de-risking its portfolio by improving the quality of counter parties to its streaming and royalty agreements. Back in 2010, all the streamers' agreements were with junior miners, which are viewed as inherently risky because of the unproven nature of their assets, whereas now they only make up 18% of Sandstorm's portfolio.

Of the remaining counter parties, 65% are mid-tier miners, and the remaining 17% are senior gold miners, which are viewed as the least risky because of the proven nature of their operations and considerable financial resources. The proportion of agreements with senior miners is expected to increase to 59% by 2023, while Sandstorm's exposure to mid-tier and junior miners will decrease significantly, further reducing counterparty and investment risk. Not only will that see the degree of risk fall, but Sandstorm's profitability will grow because it is expecting average all-in sustaining costs across its portfolio to be less than US\$600 per gold ounce produced by 2023.

Why buy Sandstorm?

Sandstorm's business makes it an attractive means of gaining exposure to gold. Not only is it a substantially less-risky investment than a gold miner, with some pundits claiming that precious metals streamers offer ETF-like diversification and stability, but Sandstorm is also attractively valued.

According to Sandstorm's calculations, it has an enterprise value of less than 15 times EBITDA, which is significantly less than its peer, such as **Osisko Gold Royalties**, **Wheaton Precious Metals**, and **Franco-Nevada**. Based on those calculations, unless there is a significant increase in its market value, that multiple will fall to around six times by 2023, as Sandstorm's earnings grow, making it even more attractively valued. This means that if Sandstorm can consistently demonstrate that it is attaining its production and earnings estimates — along with gold remaining firm — then its stock should soar, making now the time to acquire the streamer.

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Author

mattsmith

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