Buy These Defensive Precious Metals Stocks for Passive Income

Description

TSX Index investors should be no strangers to uncertainty in the markets at this stage; however, with the return of the Sino-American trade war to the financial headlines, it may be time once again to wheel out the gold stocks.

A favourite among shareholders and portfolio managers in times of stress, gold remains a top defensive pick, with pure-play mining stocks being at the forefront of the movement. While actual gold bullion is a tempting investment (though not without its limitations), and ETFs that carry gold help to spread the risk, the following miners remain among the better pure-plays in this space.

Barrick Gold (TSX:ABX)(NYSE:GOLD)

Despite negative one-year earnings, Barrick Gold's five-year average past earnings growth of 56.6% tells you straight away that this Canadian gold stock is generally solid. Its stats are a little mixed, but the data paints a positive picture for the most part; for instance, while its debt 61.1% of net worth is on the high end, Barrick Gold has enough cash runway to cover it for more than three years.

Investors swayed by peer behaviour may be interested to note that more shares have been bought than shed by Barrick Gold insiders over the last few months, with high volumes of shares being snapped up over the last 12 months in general.

In terms of value, a P/B of 1.9 times book isn't too bad for the kind of defensive stock you'd be getting, and with a dividend yield of 1.27% on offer, there's either a sweetener for the longer-term capital gains investor or a small amount of passive income for the dividend portfolio holder looking for gold exposure. Barrick Gold's share price is discounted by 22% compared to its future cash flow value, giving an indication of intrinsically good value for money.

Quality-wise, Barrick Gold is somewhat mixed, with a predicted ROE of 6.2% over the next three years coming in at the low end in terms of expected returns, though an 89.2% expected annual growth in earnings is significantly high and indicates a cheery future.

Wheaton Precious Metals (TSX:WPM)(NYSE:WPM)

This generally outperforming stock dropped 1.79% in the last five days, after its first-quarter earnings report. Despite its core assets delivering strong results, including increased gold sales, a decrease in silver sales was attributed in part to lower production levels.

With a one-year past earnings growth of 640.2% mitigating an otherwise slightly negative five-year average past earnings growth rate, Wheaton Precious Metals follows a similar pattern to Barrick Gold, with a mixed recent track record. It's likewise a healthy stock, however, having reduced its debt over the past five years to 24.4%; that debt is also well covered by Wheaton Precious Metals' operating cash flow, making for a relatively low-risk investment.

Is it good value for money, however? A 14% discount against the future cash flow value isn't significantly deep, though paired with a P/E of 21.1 times earnings and P/B of 1.7 times book the indications are that this is a fairly priced stock. While a dividend yield of 1.77% is below the lowest 25% of Canadian dividend payers, it makes Wheaton Precious Metals a possible contender for the passive income metals stock your portfolio may be missing.

The bottom line

Barrick Gold gained 0.47% in the last five days, showing characteristic sluggishness (its beta of 0.46 relative to the market is indicative of its low volatility), showing that interest in gold is gaining momentum. Since Wheaton Precious Metals is looking at a slightly negative expected annual growth in earnings over the next couple of years, would-be investors will have to factor this into their calculations.

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