This Precious Metals Company Is Buying Back 18.3 Million Shares

Description

Sandstorm Gold (TSX:SSL)(NYSE:SAND) isn't your everyday mining company. In fact, it doesn't own any mines at all.

Instead, Sandstorm lends money to mining companies in exchange for future production. This model is called metals streaming.

The metals streaming business gives Sandstorm direct upside to a mine's success while protecting Sandstorm from major losses.

For years, Sandstorm has been building an impressive portfolio of metals streaming deals, yet the market has refused to reward it for its efforts. To make sure shareholders are rewarded, the company recently instituted an 18.3 million share-repurchase program.

If the market won't assign a fair value to the company, management reasoned, the company should force its hand.

Sandstorm is showing a lot of confidence by betting on itself. Here's why following the company's lead could result in big profits for stockholders.

A long time coming

I interviewed Sandstorm's CEO, Nolan Watson, in 2015. Back then, shares were trading $3.60.

At the time, Sandstorm was projecting piles of free cash flow to materialize over the next few years. While cash flow had only started to trickle in, previous deals were starting to pay off.

Even if metals prices remained constant, the company would be trading at a 10% free cash flow yield within 12 months.

If you had bought shares in 2015, your investment would be worth nearly 100% more today.

Even after the run, the stock still appears undervalued, hence the massive buyback, which is nearly 10% of the entire company.

Management you can trust

These days, many companies are flush with cash but have limited opportunities to deploy that cash. Instead of hiring more people or investing in low-return projects, scores of companies are opting to complete share buybacks, no matter what the price.

This is a poor strategy for long-term shareholders, even if it props up the share price over the short term. By repurchasing over-priced stock, companies are potentially investing shareholder capital at a loss.

The best management teams focus on value-sensitive buybacks. That is, when the price is low, they buy more. When the price spikes, they ease off. That's the approach CEO Nolan Watson is taking.

"From the perspective of the share-buyback plan, the intention is still the buyback the full 18.3 million shares as long as the share price stays in a reasonable price range," Watson said on May 8. "We feel like we're trading below NAV, so we are keen to keep buying back shares."

Impressively, the company stopped buying shares in the past when the price ran up a bit too quickly. Watson noted that the company will remain committed only to buybacks that benefit shareholders.

"If the share price runs up dramatically, then we'll re-evaluate that against the other opportunities that we have for our capital," he concluded.

A perfect combo

If you want to maintain exposure to commodities, few stocks are better positioned than Sandstorm.

With a unique business model that benefits when prices rise while mitigating downside risk, this savvy management team should continue to find ways to increase shareholder wealth over the next few years and beyond.

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