



Sandstorm Gold (TSX:SSL) Q1 Results: What We Learned

Description

If you're invested in precious metals or mining stocks, you'll want to pay attention.

Sandstorm Gold ([TSX:SSL](#))([NYSE:SAND](#)) is a metals streaming company. That means it provides financing to mining companies so that they can get their projects into production.

In exchange for the upfront financing, Sandstorm secures a certain percentage of the output at a fixed (often very discounted) price. This business model gives it several advantages versus traditional mining stocks, but it also gives Sandstorm unique insight into the health of the industry.

On May 8, Sandstorm Gold released its first-quarter earnings results. If you're invested in this space, it pays to read what Sandstorm executives have to say.

Here's what we found out.

Gold miners are getting creative

For centuries, mining companies financed their exploration and production with traditional debt and equity instruments. This approach had severe issues.

First, equity holders were diluted at rock-bottom prices. Typically, the value of a gold miner jumps tremendously once first production is achieved. Issuing shares to fund expansion before this point results in massive dilution for early risk takers.

Second, traditional debt instruments can ruin a mining company for years to come if expectations aren't met.

For example, if a mine is delayed by a few years or runs over budget (a very common occurrence), mining companies need to issue even more debt or stock, creating a financing spiral that yet again leaves early risk takers with significantly less upside.

These limitations are why metals streaming companies are so attractive. Payment is only due when the mine actually starts producing, giving the company flexibility and downside protection to its expected development timeline.

In the wake of multiple insolvencies, Sandstorm is seeing more miners opt for metals streaming deals.

“Americas Silver, for example, is a very capable management team and they are looking to grow their business over the next several years,” highlighted CEO Nolan Watson.

“One of the reasons that I think that they chose to complete this transaction with Sandstorm is because we’re able to structure the quickest and most flexible financing package that will allow them to have the freedom to grow their business as they see fit rather than traditional sources of debt which would prohibit them from further growth without the banks permission.”

While metals streaming is still a niche business with only a few major players, expect these types of deals to ramp in volume over the coming years.

Investors are ignoring streaming stocks

When it comes to investing in precious metals, most people focus on mining stocks and commodity ETFs. That’s caused niche companies like Sandstorm Gold to fall through the cracks.

This lack of attention has caused metals streaming stocks to trade at a discount. In response, Sandstorm Gold recently instituted a buyback program for 18.3 million shares.

“As long as the share price stays in a reasonable price range, we feel like we’re trading below NAV, so we are keen to keep buying back shares,” said CEO Nolan Watson.

Expect the company to continue reinvesting capital into its own shares as long as they remain undervalued.

“We anticipate record sales, and we’re looking forward to being able to use the cash flow from those record sales to continue repurchasing our shares,” Watson concluded.

If you’re investing in precious metals, put Sandstorm Gold stock at the top of your list.

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