



2 Key Reasons Why Gold Streamers Are Superior to Miners

Description

Growing economic and geopolitical uncertainty coupled with firmer gold that's trading at a multi-year high of around US\$1560 per ounce makes now the time for investors to bolster their exposure to gold.

There is every indication that the yellow metal will rally further and break through the US\$1,600 an ounce mark because of trade tensions, the confrontation between Iran and the U.S. and growing volatility.

While many investors think about miners when considering how to bolster their exposure to gold, a superior means of doing so is by investing in precious metals streamers. They provide the same levered exposure to gold but are far less risky, making them a superior investment.

Here are two key reasons to add [gold streamer](#) **Sandstorm Gold** ([TSX:SSL](#))(NYSEMKT:SAND) to your portfolio.

Lower risk

In exchange for receiving a royalty on the gold sold by a miner or the right to acquire a fixed volume of precious metal at a deep discount to the spot price precious metals streamers provide finance to miners.

This means that streaming companies possess the same commodity price leverage and exploration upside as miners, but with significantly less risk.

Mining is a capital-intensive activity where tremendous costs are incurred for exploration, mine development, operations and reclamation, which makes miners highly dependent on a small number of operations for their precious metals production and hence earnings. It creates significant risk because an outage at a single facility can sharply reduce production and hence earnings.

Tahoe Resources travails at its flagship its Escobal mine in Guatemala illustrates just how badly things can go. Escobal, the world's third largest silver mine, was forced by Guatemalan courts to

shutter operations in 2017 after its licence was suspended, causing Tahoe's production and hence earnings to plummet to unsustainable levels.

Tahoe was unable to recommence operations at the mine and was eventually acquired by **Pan American Silver** at a considerable discount to its value prior to Escobal being shuttered. The mine has yet to recommence operations, and there are signs that the mine won't be restarting any time soon.

Streamers, however, can assemble a large geographically diversified portfolio of royalty and streaming agreements across various jurisdictions.

Since 2009, Sandstorm has amassed a globally diversified portfolio of around 200 royalty agreements across North and South America, Africa, Asia and Australia.

That considerable diversification across mines and jurisdictions substantially reduces the impact of operational, regulatory and geopolitical risk on its financial performance.

Greater profitability

Mining is a financially intensive activity that consumes large amounts of capital to develop a mining project and bring it to commercial production, while considerable investment is required to sustain as well as expand operations.

Streamers, because they don't need to invest capital to develop and sustain mining operations, have far lower costs, making them more profitable than miners.

Sandstorm reported third-quarter 2019 cash costs of US\$288 per gold ounce sold compared US\$710 for the world's second-largest gold mine, **Barrick Gold**.

This illustrates that not only is Sandstorm more profitable than most gold miners, but it can also remain operationally profitable even if gold plunges to levels that cause miners to operate at a loss.

Significantly lower operating costs free up capital that can be used to acquire further royalty and streaming agreements that will boosting assets, production and portfolio diversification.

It's important to note that streaming and royalty agreements are typically attached to the mine, not the operator. That significantly reduces risk for a precious metal streaming company because in the event of the miner going bankrupt or the asset changing hands, the agreement still stands.

Foolish takeaway

Sandstorm, which rallied by 50% over the last year, substantially beating gold and the broader **S&P/TSX Composite Index**, is an ideal precious metals streamer to profit from higher gold.

For the aforementioned reasons, it is a less risky play on higher gold than miners. The company expects its annual gold output to grow by 115% between now and 2023, which, in an environment where the yellow metal is [rising in value](#), will give earnings a solid boost.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. TSX:SSL (Sandstorm Gold Ltd.)

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Author

mattdsmith

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