Why This TSX Stock Surged 70% Amid the COVID-19 Crash

Description

The coronavirus market crash has not been as bad for some **TSX** stocks as it was on the broader markets. This top TSX stock has surged from close to $33 levels to its all-time high of $56, and that's a staggering 70% surge in just about five weeks.

Notably, the **TSX Composite Index** managed to gain just 5% in the same period. The top Canadian giant that outperformed broader markets by such a wide margin is **Wheaton Precious Metals** (TSX:WPM)(NYSE:WPM).

Top TSX stock: Wheaton Precious Metals

A $25 billion Wheaton is one of the biggest precious metals streaming companies in the world. However, it differentiates itself from the peer miners in some basic aspects. Wheaton enters agreements with an upfront payment to buy all or some of the precious metals produced from high-quality mines. The additional payment is done upon delivery of the metal.

This unique business model reduces many downsides that traditional miners realize. Due to its upfront payments, the company has no big capital or exploration costs, which generally is one of the largest cost components for miners. Also, this facilitates operating costs visibility.

Wheaton currently has streaming agreements for 20 operating mines and nine development projects. In 2019, the company generated almost 62% of its total revenues from gold and 33% from silver.

Wheaton's business model differentiates itself from peers

Investors should note that Wheaton's low-cost, low-risk model facilitated substantially higher profit margins for it in the last few years. It reported a net profit margin close to 30%, while industry leader **Barrick Gold's** net margin came in at around low single digits for the same period.

However, top TSX stock Wheaton has underperformed peers in the last 12 months. It has surged almost 90% in the last 12 months, while Barrick Gold and **Kinross Gold** stocks have managed to grow more than 120% in the same period. Wheaton's large exposure to silver could be one of the reasons for its relative underperformance.

I believe Wheaton's indirect exposure to exploration and production minimizes a substantial amount of risk. Additionally, its cash flow visibility is highly comforting for investors. Its high exposure to gold and rallying prices of the yellow metal could keep the upward march going for Wheaton stock.

Concerning valuation

However, amid the positives, one thing that might notably bother investors is the stock's valuation. Wheaton stock is currently trading at its all-time high close to $56, and thus, the TSX stock looks stretched in terms of valuation.

It's forward price-to-earnings valuation multiple comes around 65 times, which is exorbitantly high compared to its historical trends. But interestingly, there are almost no gold miner TSX stocks in the markets that are currently trading at a fair valuation after gold's epic rally this year.

I think Wheaton Precious Metals stands tall among peers due to its low-risk business model. Near-zero interest rates, massive stimulus, and continued uncertainty might push gold prices higher. The bullish outlook for this traditional safe haven could continue to boost TSX stocks like Wheaton. However, conservative investors could go slow and even wait for dips to enter Wheaton stock.

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1. Coronavirus
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