



TFSA Investors: 1 Top TSX Stock to Hedge a Market Crash

Description

The **TSX Composite Index** has risen consistently for the last two months. Many top TSX stocks have shown a notable surge from their record lows in March. However, it will be interesting to see whether these stocks could maintain gains. Rising recession fears and uncertainties on the pandemic front pose a significant threat to the current market rally.

So, how can investors protect their portfolios from the potential market weakness? Investors can consider high-quality, dividend-paying stocks amid the broad market volatility. One such TSX stock that has defied any coronavirus pressures is **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)).

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Wheaton is one of the biggest precious metals streaming company with a market capitalization of \$27 billion. Driven by the gold price rally, Wheaton stock has soared more than 60% so far this year.

Compared to the traditional gold-mining companies, Wheaton is a low-risk, high-margin business. That's mainly because streamers like Wheaton doesn't own or operate mines. They provide an upfront payment to miners and buy all or a portion of precious metals produced from those mines.

Thus, it saves on huge capital expenditures and offers operating cost visibility. Wheaton investors can enjoy higher precious metals prices with a much lower risk profile against a traditional mining company.

In recently released quarterly earnings, Wheaton reported a net income of \$96 million. That was a notable increase of 70% compared to the same quarter last year. Analysts expect its strong performance to continue throughout the year 2020.

In March, Wheaton [announced](#) a deal with **Hudbay Minerals** relating to its Rosemont project. Against an upfront payment of \$230 million, Wheaton will receive 100% of payable gold and silver produced from the project.

Dividends and valuation

Wheaton's stable business model enables stable dividends to its shareholders. It has paid consistent dividends for the last 10 years. Though it offers a lower yield, its dividend-growth rate of above 8% in the last five years is indeed attractive. Thus, it is an attractive bet for Tax-Free Savings Account (TFSA) investors, given its strong total return potential. Any gain generated within the TFSA like dividends or capital gains will be [tax-exempt at withdrawal](#).

After a steep rally, almost all gold miner stocks are trading at a premium valuation at the moment. Wheaton stock also looks overvalued against its average historical valuation. Wheaton stock has soared more than 120% in the last 12 months, in line with bigwigs such as **Barrick Gold** and **Newmont Gold**.

Gold prices could continue to trade higher, driven by the gloomy economic growth outlook this year. Also, investors might continue to take shelter in traditional safe-haven amid the broad market volatility. Higher gold prices have already notably boosted gold miners' earnings in the last few quarters. The trend could continue for the next few quarters, further uplifting their stock prices.

Wheaton could be a solid hedge if TSX stocks at large face weakness in the near future. Rallying gold prices and a low-risk business model make it stand tall among peers.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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2. NYSE:WPM (Wheaton Precious Metals Corp.)
3. TSX:HBM (Hudbay Minerals Inc.)
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