Gold Stocks: The New Dividend All-Stars

Description

Generally, when we think of dividend stocks, we tend to lean toward the traditional dividend growers. Utility stocks, telecoms, and even bank stocks tend to come to mind at first glance. But what if I told you there was a sector where dividends were growing by high double to even triple digits over the last year? That sector, if you can believe it, is gold.

Gold companies as income stocks

After several years of austerity and pain, the gold sector is in excellent shape. Companies are increasing payouts quickly as balance sheets are bulging with cash due to a number of reasons.

First of all, gold companies are earning gold at or near all-time highs. Income grew significantly this year even in the face of challenges set by the global pandemic. This is especially true for Canadian companies that also benefit from a low Canadian dollar as gold is priced in U.S. dollars.

Another benefit is the low price of oil and fuel. Gold mining companies use an enormous amount of fuel to power their equipment. Compare today's oil price of about $40 a barrel as compared to the prices of well over $100 a barrel they were facing the last time gold was at all-time highs. That is a massive cost-benefit that goes straight to these company's profit margins.

Besides gold prices and lower costs, gold companies also benefit from the macroeconomic tailwinds that could propel gold higher. Back in 2012, everyone believed that eventually central banks would raise interest rates and get national debt levels under control.

With that pretense out of the way, central banks are now aiming to print like there is no tomorrow and keep rates low for the distant, foreseeable future. Monetary expansion without end is an excellent argument to own gold. Gold tends to benefit from higher inflation levels and low interest rates, which is exactly what central banks seem to be aiming to achieve.

Dividends

Just look at some recent earnings and notice how the excellent environment for gold has affected many companies' dividends. In Q3 2019, one of Canada's strongest gold producers, **Agnico Eagle Mines Ltd.** (TSX:AEM)(NYSE:AEM), increased its dividend by 75%. Currently, this gives the company a dividend yield of almost 2%. Given that you get a yield of less than 1% from most savings accounts these days, the dividend is looking pretty attractive.

Furthermore, Agnico Eagle has great earnings to support that dividend. The company is currently producing at well over US$1800 an ounce with cash costs of about $805 an ounce. Cash provided by operating activities in Q3 2020 was $426.5 compared to $349.2 in the third quarter of 2019, leading to a healthy increase in free cash flow generation.

The bottom line

At the moment, the gold sector has one of the brightest futures of all publicly traded sectors. Most sectors, technology especially comes to mind, are riddled with dangers and pitfalls. Gold stocks tend to buck this trend, offering investors a way to get strong dividends while benefiting from macro forces that threaten to decimate other industries.

The wind is at the gold producers' sails as is clearly evident in Agnico Eagle's earnings. Right now is the time to own gold stocks. The macro forces are pushing earnings higher, and soon people are going to notice.

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Author
krisknutson