



This Gold Stock Is a Great Buy

Description

Gold prices are soaring. The current price stands near US\$1830 per ounce. During this time last year, gold prices were trading just over US\$1,400 per ounce. Worth noting is that this was itself already a solid \$200 gain over 2018 levels. This makes precious metal stocks an intriguing investment option to consider.

One example worth noting is **Wheaton Precious Metals** ([TSX:WPM](#))([NYSE:WPM](#)), which isn't a precious metal miner but instead is a streamer.

Let's talk about what this means and why you should consider adding Wheaton to your portfolio mix.

The appeal of a streamer

Precious metal streamers like Wheaton offer investors a unique (and lucrative) way to invest in precious metals. In short, streamers don't actually own any mines. Instead, streamers provide upfront capital to the more traditional gold stock miners. The [traditional miner](#) will then build the infrastructure and begin operations.

In exchange for that upfront investment, streamers are entitled to purchase precious metals from the mine at highly discounted rates. That discounted rate can be as low as US\$4.50 per ounce for silver and US\$400 per ounce for gold. The streamer can then turn around and sell those metals at the current market rate.

There are several key advantages to the streaming model over traditional gold stocks that prospective investors should take note of. First, the streaming model carries considerably less risk than that of a traditional miner. In short, apart from the upfront investment, there is nothing tying a streamer to a mine. This makes the streamer somewhat removed from the operations of the mine, which leads me to the second point — scale. Because there is nothing holding back the streamer, the company can move on to the next (investment) mine. This also implies the streamer can leave day-to-day operations to the traditional miner.

That flexibility also means that Wheaton isn't bound to one particular type of metal. The company can and does have streaming agreements for different metals including gold, silver, and palladium.

Shiny gold stocks: What should you buy?

Wheaton has 20 active mines on three continents and a further nine in various stages of development. That growing portfolio saw production levels dip in the most recent quarter, attributed to the COVID-19 pandemic. The pandemic was also attributed to market uncertainty, which pushed precious metal prices to new highs.

By way of example, in the most recent quarterly update, Wheaton reported record-breaking revenue of \$307 million. This is an impressive achievement, as there was a pandemic-induced production slowdown. The company managed to generate \$230 million in operating cash flow during the quarter. For the first three quarters, this rises to \$550 million. This is of particular interest to investors because of Wheaton's unique dividend policy. Specifically, the company pays out 30% of the average cash generated during the previous four quarters.

To put it another way, thanks to that welcome bump in operating cash flow, Wheaton just bumped its next quarterly dividend by 20%.

Final thoughts

Gold stocks have long been associated with stores of wealth, particularly during times of uncertainty. That designation isn't changing, and there is still a considerable amount of uncertainty in the market. This continues to fuel Wheaton's meteoric stock rise. So far in 2020, Wheaton is up over 30%, while the overall market is still flirting with breaking even.

This makes having a small position in Wheaton an [intriguing option](#) for nearly any portfolio.

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1. Investing
2. Metals and Mining Stocks

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Date

2025/07/01

Date Created

2020/11/24

Author

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