Precious Metal Stocks: Should You Buy?

Description

Investing in precious metal stocks is viewed as an extension of the view that gold is a safe store of wealth. This is particularly true during times of uncertainty. Investors flock to precious metals in lieu of volatile stocks, which in turn provides a perception of safety. But are precious metals *really* that much safer? You can't exactly pay for groceries using bullion, and gold prices are still known to be volatile. Investing in a streamer provides the best of both worlds.

Streaming is the best-kept secret among precious metal investors

Traditional gold miners carry significant risk. Operating a mine is time-consuming, and expensive. Further to this, there's no guarantee that the mine will actually produce any precious metals. To offset that risk, let's talk about precious metal streamers, such as **Wheaton Precious Metals** (TSX:WPM)(NYSE:WPM)

Wheaton provides upfront financing to traditional miners to setup and begin mining operations. In exchange for that upfront injection of capital, Wheaton can purchase metals produced from the mine at a highly discounted rate. That rate can be as low as US$400 per ounce of gold, and US$4.50 per ounce of silver. Once purchased, Wheaton can sell those metals on the open market for full-price and then move on to another mine.

To illustrate the impact of that discount, the market rate for an ounce of gold is just shy of US$1,900. An ounce of silver currently trades at near US$26. The rally on precious metals we've seen in the past two years is a key reason why Wheaton's stock price has nearly doubled during that time.

This model carries significantly less risk than a traditional miner. Additionally, this arms-length approach to operations allows Wheaton to quickly amass a large portfolio of mines by leaving day-to-day operations to the traditional miner. As a result, Wheaton can boast a portfolio of over 20 active mines on three continents with a further nine in development.

Further to this, Wheaton can easily diversify its portfolio to include other metals, such as cobalt and palladium, which it has in recent years.

Impressive business, Impressive results?

In the third fiscal of 2020, Wheaton reported revenue of $307 million, representing a 37% increase over the same period in 2019. Most of that gain was attributed to the impressive gains in gold prices. As a result, in the quarter Wheaton generated $228 million operating cash flow. This worked out to a whopping 60% gain when compared to the prior period. Those solid gains also allowed Wheaton to pay down $231 million in net debt, leaving the company with $278 million.

Wheaton is also unique among its peers in that the company offers a sustainable dividend. Specifically, the company pays out 30% of the average cash generated across the trailing four quarters. In the most recent quarter, this worked out $230 million. Over the course of the full fiscal, that amount is $550 million. Currently, the yield works out to just over 1%, which is hardly a draw for income-seeking investors but is appreciated.

Should you buy precious metal stocks?

Wheaton is a unique investment. The stock appeals to investors looking for a precious metal investment that doesn't carry as much risk as a traditional miner. That appeal will only grow as volatility increases, so a small position in precious metal stocks like Wheaton is warranted as part of a larger, diversified portfolio.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:WPM (Wheaton Precious Metals Corp.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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