TSX Mining Sector Analysis: Is Wheaton Precious Metals (TSX:WPM) Stock Undervalued?

Description

Warren Buffett famously said that investors should buy the stocks of great companies and hold them forever. At the Motley Fool, we take Buffett's advice to heart, and believe in the power of a long-term perspective when it comes to investing.

Although everyone likes to find a good undervalued stock, sometimes it is better to buy the stock of a great company at an okay price, as opposed to the stock of a mediocre company at a good discount. The stocks of businesses with sustainable, excellent performance make ideal buy-and-hold stocks.

For this reason, new Canadian investors should focus on the stocks of blue-chip companies with excellent fundamentals, understandable business models, essential products and services, a wide economic moat, solid financial ratios, and good management.

Wheaton Precious Metals

Wheaton Precious Metals (TSX:WPM)(NYSE:WPM) is a Canadian precious metals streaming company holding interests in 23 operating mines and 13 development projects internationally. The company primarily deals in silver, gold, palladium, and cobalt deposits.

Streaming companies like WPM sign agreements with other mining companies to acquire part or all their production, usually at a discounted price. In return, the streaming company provides the miner with capital to finance their operations, like a venture capital firm for the mining sector.

Valuation

New investors should always be aware of some basic valuation metrics, so they can understand how companies are valued and what influences their current share price.

Currently, WPM is extending gains since Monday and is currently trading at $61.16, which is extremely near the 52-week high of $65.45. In the current fiscal quarter, WPM's 52-week low is $45.76.

WPM currently has a market cap of $23.5 billion with approximately 38.81 billion shares outstanding. This gives it an enterprise value of $23.13 billion with a enterprise value-to-EBITDA ratio of 31.28, which is similar to peers in the TSX mining sector.

For the past 12 months, the price-to-earnings ratio of WPM was 37.89, with a price-to-free cash flow ratio of 36.98, price-to-book ratio of 3.91, price-to-sales ratio of 19.43, and book value per share of approximately $13.33. These ratios point to possible overvaluation for the current share price.

WPM is currently covered by a total of seven analysts. Of them, six have issued a "buy" rating, zero have issued a "sell" rating, and one has issued a "hold" rating. This is generally a considered a bullish sign given that most analysts foresee further upside.

WPM has a Graham number of 20.33 for the last 12 months; a Graham number is a measure of a stock's upper limit intrinsic value based on its earnings per share and book value per share. Generally, if the stock price is below the Graham number, it is considered to be undervalued and worth investing in. In this case, WPM does not look undervalued.

Is it a buy?

WPM looks overvalued right now, especially given that the stock has run up over 15% year to date. The mining sector tends to be highly cyclical. Investors looking to establish a position should be cautious, despite the consensus analyst ratings of a "buy," as WPM's current share price looks overvalued relative to its fundamentals.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

PARTNER-FEEDS

1. Business Insider
2. Koyfin
3. Msn
4. Newscred
5. Quote Media
6. Sharewise
7. Smart News
8. Yahoo CA

PP NOTIFY USER

1. kduncombe
2. tdong

Category

1. Investing
2. Metals and Mining Stocks

Date
2025/06/28
Date Created
2022/04/27
Author
tdong