



Time to Buy Wheaton Precious Metals?

Description

Wheaton Precious Metals ([TSX:WPM](#))([NYSE:WPM](#)) reported solid Q1 2022 results that were supported by strong gold and silver prices. The stock is down in recent weeks, and investors are wondering if the dip is a good opportunity to buy.

Wheaton Precious Metals's business model

Wheaton Precious Metals isn't a gold and silver miner. The business is referred to as a metals streaming company, which means it negotiates deals with mining companies to pre-pay for gold and silver production over a negotiated time at a set price. The mining company benefits by getting important cash up front to fund development of the project. Wheaton Precious Metals tries to secure low purchase prices for the gold and silver on the hopes of selling the metals at much higher prices.

The sharp gains in the commodities markets have helped drive up margins for the company in the past two years.

Wheaton Precious Metals's Q1 2022 earnings

Wheaton Precious Metals generated operating cash flow of US\$210 million in Q1 2022 compared to US\$230 million in the same period last year. Adjusted net earnings came in at US\$158 million.

The company was aggressive in the quarter, adding to new streams to the pipeline and increased its interest in an existing stream under contract. Gold production increased slightly during the quarter compared to Q1 2021, but silver, palladium, and cobalt production all fell, leading to a 12.9% drop in gold equivalent ounces produced.

On the sales side, gold equivalent ounces sold dipped by 3.6%. As a result, revenue slipped 5.2%, and adjusted net earnings per share fell 2.2%.

Wheaton Precious Metals earns strong margins on its contracts. Average cash cost per gold equivalent

ounce was US\$421, resulting in a cash operating margin of US\$1,429 per gold equivalent ounce. This was roughly in line with the same period last year.

Wheaton Precious Metals finished the quarter with US\$376 million in cash on hand and a US\$2 billion revolving credit facility that is undrawn. This means the business has ample cash to fund its commitments and enter new streaming contracts to drive cash flow growth. With a [market capitalization](#) of \$26 billion, Wheaton Precious Metals has the size and financial clout to negotiate attractive deals.

Dividends

Wheaton Precious Metals announced a quarterly dividend of US\$0.15 per share. That's a 7% increase over the payout level in Q1 2021.

Gold and silver outlook

Wheaton Precious metals shifted its focus more to gold in recent years. In fact, the company changed its name from Silver Wheaton to reflect the strategy change.

Gold has pulled back from the 2022 high around US\$2,080 to about US\$1,880 at the time of writing, but it still remains at very profitable levels. Looking ahead, gold bulls expect the price of the metal to steadily move higher, as investors buy gold to hedge against inflation. Gold is also viewed as a safe-haven asset in times of geopolitical and financial instability.

In addition, the selloff in cryptocurrencies could pick up steam through the rest of 2022. If that happens gold should get an extra boost. Investors who shifted out of gold to play the crypto rallies might decide that **Bitcoin** and the other digital currencies are too volatile and return to the precious metals.

Silver should also have a bright future. The metal is an important input for the manufacturing of green energy products and remains popular in the jewelry industry. Global silver demand is expected to increase by 8% to a record level in 2022.

Should you buy Wheaton Precious Metals?

The stock trades near \$57 on the TSX at the time of writing compared to the recent high of \$65. Wheaton Precious Metals is a good option to get exposure to rising gold and silver prices without taking on the direct operating risks associated with owning the miners. If you are bullish on gold and silver in the coming years, Wheaton Precious Metals deserves to be on your radar.

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2. Metals and Mining Stocks

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