Silver Wheaton Set to Report

Description

Silver Wheaton (TSX:SLW) reports its latest quarterly results on Friday (May 10th) after the close and expectations are rather tame. Analysts expect the company earned $0.40 in the first quarter, which is 2.4% lower than last year's reading. Earnings of $1.48 per share are expected over the full-year 2013.

Analysts have made substantial cuts to their earnings forecast for Silver Wheaton in recent months, with a $0.09 per share cut to their first-quarter estimate and a 20% reduction for their full-year 2013 figures. Not ideal, and these cuts have been reflected by the stock which has lost about one third of its value since February.

Can Silver Wheaton keep its earnings up?
From an operational standpoint, Silver Wheaton has had great success of late. In March, the company announced full-year 2012 figures that included a 16% boost in revenue due to a major new stream from **HudBay Minerals** (TSX:HBM), resulting in 17% growth in production and record earnings for the year. Slightly lower silver prices and somewhat higher average costs per ounce weren't enough to offset the gains.

Yet more recently, the plunge in precious metals has threatened margins, hence the analyst cuts.

Not all bad

A good rule of thumb when investing in commodities is to focus on the low-cost producers. Silver Wheaton is just that. Therefore, the commodity plunge has created both challenges and opportunities for the company.

On one hand, struggling miners facing lower prices will need financing and therefore be more willing to turn to SLW for badly needed cash. This provides the company with a significant opportunity for growth.

On the other, existing streaming agreements could face trouble if counterparties have trouble staying operational. However, major partners **Goldcorp** (TSX:G) and **Barrick Gold** (TSX:ABX) are both big enough that they should be able to avoid breaching their production agreements with Silver Wheaton.

In addition, the streamer typically builds in contractual protections to minimize its risk with counterparties.

Foolish Takeaway

If you're interested in investing in the commodity space, this company warrants your attention. It's not as cheap as its mining peers, but it's at least cheaper than it was. Unless you think precious metals are down for the count, the recent plunge makes Silver Wheaton's stock look a lot more promising for future growth.

Even though they have been hammered, resource companies continue to carry a relatively high weight in the S&P/TSX Composite. This makes passively investing in the Canadian market a risky proposition. If you own, or have ever thought of owning a Canadian index fund you need to **click here now** to fully understand the risks involved with this strategy. Our special **FREE** report "**Buy These 5 Companies Instead of Following a Flawed Piece of Advice**" profiles 5 great Canadian companies that should replace your high-risk Canadian index fund. Simply **click here** and we'll deliver this report to you – **FREE!**

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Fool contributor Iain Butler is short $28 June 2013 put options on Silver Wheaton and $32 July 2013 put options on Goldcorp and owns shares of Barrick Gold. The Motley Fool has no positions in the stocks mentioned above.

A version of this article, authored by Dan Caplinger, originally appeared on Fool.com

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Date
2025/09/10
Date Created
2013/05/08
Author
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