



Water Delays Continue to Keep This Mine's Production Stream at Bay

Description

A streaming company can be a great way to invest in gold or silver production because it shields investors from the inevitable cost overruns that result from building a new mine. Unfortunately, it can't protect you from the delays that also inevitably come from starting up a new mine. These delays are one of the current issues facing investors of silver streamer **Silver Wheaton** (TSX: SLW, NYSE: SLW). The company, which has a silver streaming agreement with **Barrick Gold** ([TSX: ABX](#)) on its Pascua Lama project in Chile, is simply along for the ride as Barrick works through its water issues to bring the mine online.

The good news is Barrick has now submitted a plan to be reviewed by the Chilean regulatory authorities. Under the plan, the company would construct the project's water management system in compliance with permits by the end of next year. This would have the company producing ore from the mine by the middle of 2016.

Conundrum

The problem is that under the completion guarantee with Silver Wheaton, Barrick is required to have completed at least 75% of the design capacity by the end of 2015. Here's where it gets really interesting, during just 2014 and 2015, Silver Wheaton is entitled to silver production from three currently producing Barrick mines until it satisfies the completion guarantee. However, if Barrick doesn't comply by the end of 2015, Silver Wheaton can simply walk away from the agreement and get its upfront cash back, less the credit for silver already delivered.

That puts both companies in a rather interesting spot. If Silver Wheaton walks away it will lose out on that mine's future production. Meanwhile, Barrick would need to come up with the cash to repay most of the \$625 million (USD) it received upfront. Walking away is an outcome neither company wants to see.

Though that's especially true for Silver Wheaton as Pascua Lama is a world class gold and silver deposit, which are tough to come by these days. Not only that, but the company's contract included its ability to purchase 25% of the silver produced for the life of the mine. That could equate to substantial

cash flow over the years. Overall though, Silver Wheaton has agreements that cover 23 mines, with four of them still in development. So, even if it does decide to walk away or if there are further delays, the company will be fine.

Some of its current assets includes **Primero's** (TSX: P) San Dimas mine and **Goldcorp's** (TSX: G) Penasquito mine, which has had its own water issues. Today these two mines represents 20% and 17% of its forecasted production, respectively.

Silver Wheaton's diverse portfolio is structured so that none of the mines with which it has streaming contracts account for more than 25% of its total production. So, even when Pascua-Lama does come online it would represent just 17% of Silver Wheaton's overall production in 2017. That will help push Primero's San Dimas down to 13% of production while Goldcorp's Penasquito will represent just 14% of forecasted production. Again, while it's pretty clear that Pascua-Lama is important to Silver Wheaton's future, its contracted diversity will go a long way to secure its future.

Foolish Takeaway

This whole situation highlights one of the many risks facing investors, even when investing in what are deemed as safer plays. You just never know when your investment thesis will spring a leak. That's why with a future that is so uncertain, it's important have a diversified portfolio to withstand the inevitable bumps along the road.

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The original version of this post was authored by Fool.com contributor Matt DiLallo.

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CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:ABX (Barrick Mining)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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