



Silver Wheaton's Quarter: Shiny or Tarnished?

Description

A Look at Silver Wheaton's Tarnished Quarter

Silver streamer **Silver Wheaton** (TSX:SLW) is out with its second-quarter earnings report. While its sales volume was up on the quarter, the record plunge in gold prices, as well as a large drop in silver prices, hurt its earnings. Let's dig in and see what that means for investors.

Digging into the quarter

Silver Wheaton enjoyed record silver equivalent production on the quarter of 8.6 million ounces, which was a 28% increase over last year. However, silver equivalent sales were only 7.2 million ounces, or an increase of 4% from last year. Despite record production, revenue was actually down by 17% to \$166.9 million due to commodity prices being crushed last quarter, and the price Silver Wheaton realized for silver equivalents was down 21% over last year.

The bad news on the quarter is that net earnings came in at just \$71.1 million, or \$0.20 per share, which is down 50% from the same quarter of last year. However, operating cash flow did come in at \$125.3 million or \$0.35 per share, which was a 28% drop over last year's second quarter. Not great, but relatively good compared to earnings.

In addition to lower commodity prices, there were two other factors contributing to the lower profits. First, Silver Wheaton's cash costs were higher due to increased gold sales which came in at lower margins. In addition to that, the company took a \$4.5 million charge in the quarter after refinancing its bridge facility.

Shiny future?

While there isn't much Silver Wheaton can do about commodity prices, what it can do is continue to sign streaming deals which will add to its production and earnings. In addition to signing new deals, investors need to keep an eye on two projects which have the potential to be future drivers for the company.

Water issues at **Goldcorp's** (TSX:G) Penasquito mine has hampered production attributable to Silver Wheaton. For the year, the company sees production of 105,000 tonnes per day, with the ramp-up to

110,000 tonnes per day over the next five years. However, Goldcorp recently found a new water source which could enable it to ramp up its production to 130,000 tonnes per day. That means that there could be some upside in the future for Silver Wheaton.

Looking out over the longer term, the [Pascua-Lama mine](#) belonging to **Barrick Gold** ([TSX:ABX](#)) is the mine investors really need to watch. Barrick is contractually required to have 75% of the project's design capacity completed by the end of 2016, after Silver Wheaton recently agreed to extend the deadline. This mine has also encountered [water issues](#) and Barrick is having trouble getting the necessary approvals to move forward with the project. At the end of 2016, Silver Wheaton has the option to simply walk away and get its initial investment back, net of any silver credits from Barrick's other mines. However, this is an important mine for Silver Wheaton as it would represent 17% of its forecasted production in 2017 – making it the top mine in its portfolio – so if it walked away, it would have a large hole to fill.

Final Foolish thoughts

While Silver Wheaton's earnings were tarnished by the large drop in the price of silver and gold last quarter, it still delivered solid cash flow. As a silver streamer the company is still much better insulated from commodity prices as its investments are fixed, meaning it won't be taking large writedowns like Goldcorp's \$1.96 million charge at Penasquito [this past quarter](#), nor will it run into cost overruns like those plaguing Barrick. Instead, it can just enjoy all the benefits of the cash flow as these projects begin producing.

The Canadian market is dominated by resource oriented companies like Silver Wheaton, Barrick, and Goldcorp. To help open your eyes to what else might be out there, the Motley Fool Canada created a special **FREE** report that profiles 5 great Canadian companies that are a perfect fit for every portfolio. In fact, one of these 5 just got taken out a huge premium. Simply [click here now](#) to learn all about the other 4.

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