



What is Going On at Silver Wheaton?

Description

On Thursday, **Silver Wheaton** (TSX:SLW)(NYSE:SLW) reported earnings for the fourth quarter of 2013, and also released its annual report. The company made 26 cents per share in the fourth quarter, beating estimates by one cent. But the company reported only \$167 million of revenue, missing estimates by nearly \$30 million.

A tough year

There is no denying that 2013 was a tough year for any company involved in precious metals. Silver Wheaton was no exception. Silver, which accounts for roughly three quarters of the company's revenue, sold for an average price of \$23.86 per ounce in 2013, and only \$21.03 in the fourth quarter – back in 2012, silver was selling for over \$31 per ounce. As a result, Silver Wheaton's numbers were not pretty. Revenue decreased by 17%, and more importantly, earnings per share declined 36%.

The company got more bad news in the fourth quarter of 2013, when **Barrick Gold** ([TSX:ABX](#))(NYSE:ABX) suspended its Pascua Lama project in South America. Barrick had previously signed a deal with Silver Wheaton for 25% of the mine's silver production. To compensate, Silver Wheaton was able to sweeten its deals with Barrick's other mines.

But the company remains defiant

Earlier this week, **Franco Nevada** ([TSX:FNV](#))(NYSE:FNV) also released results, and recorded \$140 million worth of impairment charges. Yet despite the problems at Pascua Lama, Silver Wheaton did not take a writedown on the streaming deal. This is a little bit fishy at best — these deals can get quite complicated, and investors do not have perfect visibility on every one of these contracts. For that reason, it is all the more important for management to be conservative, so investors can feel more at ease – in this case, that may not have happened.

The new DRIP

Management also decided that now is the right time to introduce a new dividend reinvestment plan, allowing investors to use their dividend to buy shares at a 5% discount. These programs provide a raw

deal to shareholders who elect to take their shares in cash. The motivation and timing of this decision should be called into question.

Foolish bottom line

The year 2013 was certainly not an easy one for Silver Wheaton, mainly due to factors outside management's control. But with this earnings report, the company seems to have the wrong priorities right now – refusing to take its (impairment) medicine, and introducing a DRIP.

Investors are probably better off avoiding this company. As for the people who disagree, they should enrol in the DRIP — and hope that the price of silver continues its rebound.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:B (Barrick Mining)
2. NYSE:FNV (Franco-Nevada)
3. TSX:ABX (Barrick Mining)
4. TSX:FNV (Franco-Nevada)
5. TSX:WPM (Wheaton Precious Metals Corp.)

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Date

2025/07/24

Date Created

2014/03/21

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