



3 Reasons to Buy Silver Wheaton

Description

It's no secret that [I'm not a big fan of gold or silver](#). I think that we should much rather store our wealth in wonderful businesses that produce profits and dividends than fondle pieces of metal. [Don't even get me started](#) on the capital sinkhole that is the mining industry.

However, once in a while a company comes along that completely changes how you think about a business. **Silver Wheaton** (TSX: SLW)(NYSE: SLW) is one of those companies. Here are three reasons to consider adding this stock to your portfolio.

1. A great business model

Silver Wheaton is like a bank for the mining industry. In exchange for an upfront payment, the company is allowed to purchase a mine's entire gold or silver production at a highly advantageous price.

How good are these deals? Last year, Silver Wheaton paid an average price of \$4.65 per silver equivalent ounce. That makes the company one of the lowest-cost "producers" in the industry. And given that silver prices are trading north of \$19 per ounce today, the firm is making money hand over fist.

Beyond sheer profitability, the biggest advantage of this business model over traditional mining companies is cost confidence. When building a new mine, budget overruns can cost investors dearly. However, once an upfront streaming payment is made, there are no surprises.

Silver Wheaton is also a much better place to store your wealth than gold and silver bars or precious metal exchange-traded funds over the long haul. Excess cash flow is plowed right back into new streaming deals, allowing the company to grow over time. That's far better than storing silver coins in a vault.

Best of all, the firm is efficient. When you consider Silver Wheaton's general and administrative expenses relative to the fees you pay on a typical ETF, the company delivers the same exposure to silver prices for far less. And when you also consider that the company pays a dividend, you are actually getting paid to own the stock.

2. A shareholder-friendly management team

Every management team claims to be shareholder-friendly. It's a bit like how a baseball commentator can justify a player's spot on the roster by saying "he's a great guy in the dressing room". It's this fuzzy attribute that doesn't really mean anything.

However, there are little clues that suggest management is on the same page with shareholders at Silver Wheaton. [Take this comment](#) from an conversation I had with Chief Executive Randy Smallwood last year: "One of the facts that I think is really important is that an investor had about one and a half ounces [of silver] behind a share of Silver Wheaton [in 2004]. That same share, all of the way through and not adding any more shares, now has over six and a half ounces."

Did you catch that? It was subtle, but notice how Smallwood is bragging about Silver Wheaton's reserve growth per share. That's unusual in the mining business, where most executives brag about EBITDA growth, the number of employees hired, or how many ounces they're pulling out of the ground.

Giant business empires may stoke management egos, but merry executives never funded anybody's retirement. Any expansion is worthless from the perspective of shareholders if the company has to dilute investors into oblivion ([cough...cough...Barrick Gold](#)). The fact that Smallwood is gloating about ounces per share and not total reserves is an indication that he's looking out for investors.

3. A sustainable competitive advantage

Silver Wheaton is the biggest streaming metals company in the world, and that gives it credibility with the silver mining industry as a source of financing for mining companies. If you are a struggling junior company, doing a deal with Silver Wheaton is like a giant "all-clear" signal to other investors.

It's analogous to how **Berkshire Hathaway** struck such advantageous deals with troubled banks during the financial crisis. Warren Buffett could extract unusually high returns out of companies like **Goldman Sachs** because his name acted like a seal of approval. It gave other investors and stakeholders confidence in the company.

This is exactly the sort of competitive advantage that Silver Wheaton has in the marketplace. This allows the company to structure exceptionally good deals during its negotiations with mining companies.

Of course, Silver Wheaton isn't risk-free. The company is exposed to fluctuating commodity prices. If streaming partners begin to shut down mines, it could send Silver Wheaton shares reeling. However, for investors looking to play precious metal prices, this name is a better alternative to mining stocks or hoarding metal in a vault.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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