



2 Companies That Could Benefit From a Silver Rally

Description

Silver may mean second place when it comes to the Olympics, but that doesn't mean it should take a back seat in your portfolio. When you think of silver you might automatically picture jewelry, coins, or the fancy cutlery you only use when you need to impress someone. Yet much like gold, silver has more uses than you would think.

Silver actually has the highest electrical conductivity of any element, making it very attractive for many of today's high-end consumer and industrial electronics. It has the highest thermal conductivity of any metal. Silver is also used as a catalyst in several types of chemical reactions, and as part of an alloy to make regulating control rods for nuclear power plants. Knowing these alternate uses opens up a whole new world of possibilities for the element in the eyes of investors, especially when you realize that silver is trading at less than half the price of what it should be.

Steady demand, falling price

Despite the price, there is still a healthy demand for silver worldwide. Back in 2013 there was a total supply of 978 million ounces; this number is a combination of mining, scrap, and government sales. In terms of consumption, 1.08 billion ounces were used in 2013, the most silver consumed in 10 years. The top use of silver in 2013 was in the industrial fabrication sector, which used 586 million ounces. This was followed by coins and bars at 245 million ounces and other industrial applications at 240 million ounces. Jewelry production only ranked at fifth place, with 198 million ounces used.

While consumption has been steady, the price of silver is another issue. After peaking at U.S.\$35.11 per ounce in 2011, the price has slumped back down to U.S.\$20.93 per ounce. To give some added perspective, silver was trading at only U.S.\$6.58 per ounce in 2004. Thus, silver is in an interesting position of high demand and lower prices. Some analysts and insiders see the price of silver as extremely below where it should be, pointing to the \$50-60 range it was trading at in the 1980s as a more realistic current price target.

So let's take a quick look at a pair of Canadian companies that are hurting today, but could reap the benefits tomorrow.

Silver Wheaton

First up is **Silver Wheaton** (TSX: SLW)(NYSE: SLW), which closed Friday at \$28.59, right near the high end of its 52-week range of \$20.53 to \$30.65. With the mixed bag of silver commodity prices, the average price target on the stock is only \$30.80. If the bullish \$50 per ounce analysts are correct, there is much more room for growth in Silver Wheaton than is advertised.

Endeavour Silver

Though it was once seen by analysts as a high-cost producer, **Endeavour Silver** ([TSX: EDR](#))([NYSE: EXK](#)) remains an interesting pick. The company has been able to lower its production costs from \$25 per ounce in 2013 to \$13 per ounce by Q1 2014.

In Q2 2014, silver production totals increased by 9% to 1.7 million ounces, and its total silver equivalent production increased by 6% to 2.6 million ounces. The stock closed Friday at \$6.38, near the top end of its 52-week range of \$3.34 to \$6.69. The average price target is only \$6.00, but much like Silver Wheaton, that number could change drastically if the price of silver spikes in the coming year or two.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:EXK (Endeavour Silver Corp.)
2. TSX:EDR (Endeavour Silver Corp.)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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