



What to Expect When Silver Wheaton Corp. Reports

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is the largest precious metal streaming company in the world and derives approximately 75% of its revenue from the sale of silver and 25% from the sale of gold.

The company currently has 24 precious metal purchase agreements with 15 operating partners, including **Vale**, **Barrick Gold Corporation**, and **Goldcorp**. These agreements allow the company to purchase, in exchange for an upfront payment, the by-product silver production from a base or precious metal mine that it does not own or operate. The price that Silver Wheaton pays for production averages approximately US\$4 per ounce of silver and US\$400 per ounce of gold, ensuring basically a fixed cost to the company.

In 2013 the company received silver equivalent production (that is silver and gold production combined) of 35.8 million from its partners. Given current contractual arrangements, this is expected to grow by 35% until 2018 when annual attributable production is anticipated to reach 48 million silver equivalent ounces.

First-quarter profits declined sharply

Production of silver and gold increased in the first quarter by 7.7% compared to the same period the previous year while sales jumped by a healthy 17% to 8.1 million ounces of silver equivalent. However, the average realised price of silver and gold sales declined by 31% resulting in a 42% decline in profits per share and a 31% decline in cash flow from operations.

Second-quarter results depend on realised silver and gold prices and sales volumes

Second-quarter 2014 results will be reported on Wednesday. Consensus estimates indicate an unchanged profit per share of \$0.20 for the quarter.

Based upon its current agreements, the company expects to receive production of approximately 36 million silver equivalent ounces in 2014, slightly more than the 2013 production level. Given the full year production estimate, second-quarter production could be ahead of the comparable period in 2013.

Sales volumes will depend on demand and contractual arrangements, but the average silver and gold prices during the comparable period last year were somewhat higher. Given the zero hedging positions of the company, this will result in a drag on sales revenues.

The company has effectively a zero income tax rate. In this regard it is notable that an audit by the Canada Revenue Agency of Silver Wheaton's international transactions covering the 2005 to 2010 taxation years, is currently ongoing. Up to the end of the first quarter, the company has not received any notice of reassessment in connection with the audit.

Dividends linked to operating cash flows whereby 20% of the average of the previous four quarters' operating cash flows are distributed to shareholders. A quarterly dividend of around \$0.07 per share could be expected.

The share price normally tracks the silver price

Over time the Silver Wheaton share price tends to track the movement in the silver price but the share price has added 32% since the start of the year despite the fact that the silver price is almost unchanged over this period. The share price could come under pressure should the results disappoint.

The famed investor, George Soros reported in the latest 13F Securities and Exchange Commission filing from May 2014 that he purchased 400,000 shares of Silver Wheaton, valued at \$9.1 million. He will be looking for further gains over time.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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