Silver Wheaton Corp.: The Q2 Earnings Miss Has a Silver Lining

Description

Some investors want to benefit from increases in the price of silver and gold, but don't want the risk associated with investing in mining companies. If that sounds like you, **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW) is a perfect investment.

Silver Wheaton is the world's largest precious metals streaming company. Roughly 75% of the company's revenue comes from silver, while the remainder is composed of gold sales.

The company just missed Q2 2014 earnings expectations by $0.02 a share. Any weakness in the stock should be seen as a buying opportunity.

Here are three reasons why I think Silver Wheaton should be in every precious metals portfolio.

1. Business model

Silver Wheaton signs agreements with the top mining companies in the world to purchase certain quantities of silver or gold by-products at a fixed price and pays up front before the mine goes into production.

The miner benefits by getting much-needed capital and Silver Wheaton gets a guaranteed supply of silver or gold at a significantly reduced price per ounce, typically $4 per ounce of silver and $400 per ounce of gold.

When the precious metals are mined, Silver Wheaton then sell them at market prices, reaping the benefits of the price differential, without taking on the capital or operating risks to produce the silver or gold.

When looking for accretive deals, Silver Wheaton targets low-risk opportunities that will provide high-quality product and are located in countries with reasonable political risk relative to the price the company pays for the silver or gold production.

2. Long-term contracts

Silver Wheaton has long-term contracts with most of the mines it works with. Of the 24 current contracts, 19 are mines that are currently in operation and five are development projects.

A total of 15 contracts are for the entire production life of the mine. Another five are for terms of 20 years or greater. The remaining four are agreements lasting ten years or less.

The long-term contracts give investors a stable stream of expected silver and gold production. While spikes and drops in precious metals prices will affect the stock, the fixed price Silver Wheaton pays for the product gives investors protection on the cost side. This is not possible when investing in actual mining companies.

3. Future production expansion

Silver Wheaton expects its 2014 attributable production of 36 million silver equivalent ounces to increase by 33% to 48 million silver equivalent ounces by 2018. This forecast is based on production expected from projects in development, as well as continued production growth at mines already in operation.

Randy Smallwood, Silver Wheaton's CEO, said in the Q2 2014 press release that mines operated by **Vale SA (ADR)**, **Hudbay Minerals Inc.**, **Goldcorp Inc.**, and **Primero Mining Corp** are all set to increase production in the near term.

The bottom line

At current silver and gold prices, Silver Wheaton is profitable. The upside potential for the stock is substantial considering the increase in production coming in the next four years coupled with the likelihood of higher precious metals prices.

Some of the smartest investors in the world, including George Soros, have invested heavily in Silver Wheaton. For long-term investors looking for a low-risk way to benefit from rising silver and gold prices, Silver Wheaton is a solid buy.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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