



## Could Silver Wheaton Corp. Hit \$40?

### Description

Shares of **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW) have been on a downward trend since it released its Q2 2014 earnings report. The precious metals streaming company has been on this ride before and subsequently bounced back to hit \$30 or even \$40 per share.

Let's take a look at the company's current situation and see if the weakness in the stock price might be an opportunity for long-term investors to pick up Silver Wheaton at a discount.

#### 1. Realized pricing, earnings, and the Fed

Silver prices were significantly weaker in Q2 2014 compared to the second quarter of 2013. In fact, Silver Wheaton endured a 14% drop in the price it received for its product and earnings for the period dropped 11%.

Will silver and gold prices continue to fall?

Precious metals prices have been under pressure recently as the market is once again starting to hedge against the possible reduction of the Federal Reserve's Quantitative Easing program and a hike in interest rates.

The market has seen this situation before, and this time the traders might be right, but it is still too early to tell if the U.S. economy has strengthened enough. Jobs are being created, but not the high-paying ones that the economy needs for strong, continued growth.

There is a broad consensus that the Fed will raise interest rates in 2015. When this happens, the herd believes investors will dump precious metals and shift their money into assets with higher yield.

It doesn't take much for sentiment to swing the other way, as the market witnessed earlier this year. A bad jobs report, another financial bomb in Europe, or an escalation in any of the current global conflicts could send traders rushing back into the precious metals and put the tapering talk on the sidelines.

Before the Fed decides to raise interests rates, it will want to be very sure that economic growth is off

to the races. That is not yet evident.

## **2. Production expansion**

Silver Wheaton confirmed its 2014 production guidance at 36 million silver equivalent ounces. This is expected to jump by 33% to 48 million ounces by 2018 as the Rosemont and Constancia mines begin production and expansion occurs at mines already in operation.

Long-term investors should pay close attention to the production trend. Even in an environment of weaker prices, Silver Wheaton is going to have significantly more product to sell. Given that the company pays an average of \$4 per ounce of silver and \$400 per ounce of gold, the margins are still significant at lower precious metals prices.

## **3. Supply stability**

Silver Wheaton enters into long-term contracts with mining companies. Currently, the company has deals with 19 mines that are active and five projects that are in development.

Silver Wheaton's management is very good at finding low-risk opportunities with high-quality product. The company pays mining firms up front for the silver and gold by-products. This gives the miner a nice chunk of cash for capital expenditures and Silver Wheaton gets access to a steady stream of product at very low prices.

In the current environment, miners are having difficulty raising capital and are more likely to do streaming deals that are advantageous to Silver Wheaton. This will simply add to the already-strong outlook for future production.

## **The bottom line**

A geo-political shock could easily send metals prices racing higher again in the near term, and global money printing is unlikely to slow down anytime soon, which bodes well for the precious metals in the long run.

However, there is no guarantee that Silver Wheaton's share price has hit bottom and long-term investors should take the approach that short-term pain in the silver market could mean long-term gain in the form of lucrative new deals. Looking beyond the near-term volatility, I think the long-term fundamentals suggest good times are coming for Silver Wheaton.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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