



3 Reasons to Buy and Hold Silver Wheaton Corp.

Description

Mining is a terrible business.

Most analysts will never tell you that, but I've been saying it for years. Finding, building, and operating a mine is tough — let alone making a profit. That's why this industry has squandered more capital than any other sector in history.

However, sometimes a company completely changes how you think about a business. **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW) is one of those companies. Here are three reasons to add this stock to your portfolio.

1. Brilliant business model

Silver Wheaton isn't your typical resource firm. In fact, it doesn't own any mines at all. Rather, the company is what's called in the industry lingo as a "streaming metals business."

It works like this: the company fronts resource firms with cash they need to construct new projects. In exchange, Silver Wheaton has the right to buy a percentage of the mine's output, usually at a steep discount to market prices. In essence, the firm is like a banker for the mining industry.

The advantage of this model is obvious. Silver Wheaton pays an average of US\$4.15 per silver equivalent ounce. At current prices the company generates profit margins between 80% and 90%. That's a lot better than your typical mining firm.

2. A competitive advantage

Silver Wheaton is the biggest streaming metals business in the world. That gives it credibility as a source of financing. If you're a struggling miner, doing a deal with Silver Wheaton is a giant "all-clear" signal to other investors.

It's like how **Berkshire Hathaway** was able to strike such great deals during the financial crisis. Warren Buffett could extract good terms with banks like **Goldman Sachs** because his name is the

market's "Good Housekeeping Seal of Approval." It gives other investors confidence to invest in the company as well.

That's the same advantage Silver Wheaton has in the marketplace. You could almost call it a brand. While the company isn't selling soda or toothpaste, this brand strength allows Silver Wheaton to earn excess returns for investors year after year.

3. Shareholder-friendly management

Silver Wheaton is the best steward of shareholders' capital in the mining industry. For proof, take this comment from a conversation I had with CEO Randy Smallwood last year: "An investor had about 1.5 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 6.5 ounces [in reserves] today."

Did you catch that? It was subtle. But notice how Smallwood is bragging about Silver Wheaton's reserve growth *per share*. The fact that he's gloating about ounces per share is an indication that he's looking out for investors.

Believe me, that's unusual in this business. Most executives brag about EBITDA growth or the number of employees hired. Big empires may stoke management egos, but merry executives never put money in your pocket. Any expansion is worthless if the company has to dilute investors into oblivion.

Of course, this stock isn't risk-free. Lower metal prices will hurt the bottom line. If partners begin to shut down mines, it could send the stock reeling. But if you're looking to invest in the mining sector, there's no better name than Silver Wheaton.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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