



Silver Wheaton Corp. vs. Cameco Corporation: Which Is the Best Contrarian Pick?

Description

Silver Wheaton Corp. (TSX: SLW)(NYSE: SLW) and **Cameco Corporation** ([TSX: CCO](#))([NYSE: CCJ](#)) are battered and bruised but the two companies have a lot to offer patient shareholders.

Let's take a look at both stocks to see if one is a better choice right now for contrarian investors.

Silver Wheaton Corp.

A weak earnings report in the second quarter set off a three-month slide in Silver Wheaton's shares that erased 30% of the company's market value. In recent days it looks like the carnage might finally be over.

For contrarian investors, Silver Wheaton could offer some serious upside potential from current levels. The company has long-term contracts in place with miners to supply gold and silver byproducts at very attractive prices. Silver Wheaton can negotiate great deals because it pays miners up front for the life-of-mine supply of the gold or silver that is produced.

In fact, Silver Wheaton's average cost is about \$4 per ounce for silver and \$400 per ounce for gold.

Silver Wheaton's production outlook looks good. In the Q2 2014 earnings report, the company confirmed its production guidance of 36 million silver equivalent ounces. The part that investors should be looking at is the growth projections for the next four years. By 2018, production should be at 48 million ounces.

Precious metals markets are under severe pressure right now, but many of the factors that could drive gold and silver higher are still present. Political instability in the Middle East is not fading, deadly diseases are commanding worldwide attention, and the global economy is struggling to gain traction despite the best efforts of the world's central banks. As we have seen a number of times, it doesn't take much to reverse the downward trend in prices.

Cameco Corporation

The uranium miners have had a rough time in the past few years as spot prices tumbled in the wake of the disaster in Japan. Over the past few months, things have started to look better.

Uranium bottomed around \$28 per pound and has bounced back into the \$35 range. This is still too low for many of the world's producers to operate profitably, but it is a sign that the industry could be turning the corner.

Cameco has the benefit of operating the world's largest uranium mine. Its McArthur River asset also boasts the world's highest-grade deposit. Despite the low prices, Cameco is still able to turn a profit on its production.

Global demand for uranium is expected to rise from 170 million pounds to 240 million pounds over the course of the next 10 years. China and India are building new facilities to keep up with growing electricity demand, and analysts expect Japan to restart 30 of its reactors in the next five years.

Secondary supplies of uranium are being worked through and new production might not come on line fast enough to meet the growing demand in the next few years.

This all bodes well for Cameco moving forward.

One thing investors need to watch out for is a nasty tax battle Cameco is having with the Canada Revenue Agency. If Cameco loses, the impact could be as much as \$650 million, according to the company's statements.

Both Cameco and Silver Wheaton offer compelling long-term prospects for contrarian investors. Silver Wheaton is attractive because it does not actually produce the gold and silver and is therefore not as risky as the miners, but you might want to wait for the Q3 numbers to come out before buying the stock. Cameco's tax issue is a concern, but the long-term outlook for uranium demand looks good. At this point, I'd say it's a coin toss between the two.

If you think Silver Wheaton and Cameco are still too risky, you might want to check out the stock our top analyst has highlighted in the following free report.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)
3. TSX:WPM (Wheaton Precious Metals Corp.)

Category

1. Investing

2. Metals and Mining Stocks

Date

2025/07/29

Date Created

2014/11/07

Author

aswalker

default watermark

default watermark