Will Silver Wheaton Corp. Hit $45?

Description

It looks like the bottom is in for the shares of **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW), and new investors are wondering if the latest pop in the stock is the start of a new rally.

Let's take a look at Silver Wheaton's current situation to see if now is the right time to start a position.

Strong margins

Silver Wheaton reported solid results in its Q3 2014 earnings period despite a 19% plunge in silver prices and a 9% drop in the price of gold during the quarter. The company delivered adjusted net earnings of $0.20 per share.

Cash operating margins remained above 70% for Q3, said Silver Wheaton President and CEO Randy Smallwood.

The company's average silver equivalent cash cost was $4.59 per ounce for the quarter. The silver component cost $4.16 per ounce, and gold came in at $378 per ounce.

The average silver equivalent realized sale price was $18.98, resulting in a cash operating margin of $14.39 per ounce of silver equivalent sales.

Lower realized prices were offset by a 12% year-over-year increase of silver equivalent ounces sold.

Investors should be comfortable holding the stock, given the strong margins. When silver and gold prices rebound, the boost to cash flow will be significant.

Production growth

Silver Wheaton expects to see production growth in 2015 and beyond.

The Constancia project in Peru is 94% complete and is on target to begin commercial production in the second quarter of 2015.

The expansion at the Salobo copper mine in Brazil continues to ramp up. Throughput capacity has doubled, and the mine hit record gold production of 10,415 ounces in the third quarter.

Silver production at the Yauliyacu mine in Peru hit a six-year high in Q3 2014, as the facility processed higher-grade ore.

Silver Wheaton also boosted its silver resource estimate at the Peñasquito mine in Mexico by 45 million ounces, to a total of 113 million ounces.

Overall production is expected to increase significantly through 2018, as Constancia goes into production and expansion projects come on line at the other mines.

Strong cash position

Silver Wheaton finished Q3 2014 with $233 million cash on hand and maintains a $1 billion credit facility. The strong balance sheet positions the company to take advantage of opportunities to secure additional streaming deals at very attractive prices. Miners are strapped for cash, and tapping the capital markets is expensive and very dilutive to shareholders right now. In many cases, the best source of cash could be a long-term supply agreement with a streaming company like Silver Wheaton.

Should you buy?

Silver Wheaton remains a cash machine even in a very weak market. If prices stay low, the company's production growth will boost free cash enough to support the stock price. When silver and gold prices rebound, the margin expansion will send earnings significantly higher, and the stock should follow.

If you believe precious metals prices are close to a bottom, the upside potential for Silver Wheaton's stock looks pretty good right now. Prices will have to strengthen significantly for the stock to double from its current level of about $22 per share, but the fundamentals are in place to support the move.

Silver Wheaton is not the only company on the verge of a big breakout. Check out the two stocks identified by our top analysts in the free report below.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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