



## 3 Obvious Reasons to Buy Silver Wheaton Corp. Right Now

### Description

**Silver Wheaton Corp.** (TSX: SLW) (NYSE: SLW) looks like it finally hit bottom after a tough slide that lasted three months and wiped out almost a third of the company's market value. After closing below \$20 on November 5, the stock has rallied more than 20% and is setting up to take another strong run at the \$30 mark.

Here are the reasons why I think investors should consider adding Silver Wheaton to their portfolios right now.

#### 1. Long-term supply at great prices

Silver Wheaton negotiates long-term supply contracts with mining companies for the silver and gold by-products that are produced at mines set up to extract other resources, such as copper.

Mining companies need a lot of capital to get a facility up and running. Gold, silver, and copper prices are under pressure and the shares of the companies that produce these metals have been decimated. This gives the streaming companies like Silver Wheaton a great opportunity to negotiate favourable life-of-mine deals.

Raising capital is very expensive right now in the mining sector. Companies don't want to issue stock at very low share prices and the debt market is demanding high interest rates in order to take on the added risk associated with the difficult outlook for the mining industry.

The last remaining source of cash is often Silver Wheaton. In exchange for providing a significant up-front payment, Silver Wheaton gets the silver and gold for very good prices. In fact, in its Q3 2014 earnings statement, the company reported that its average cost of silver was \$4.16 per ounce and its average gold cost was \$378 per ounce.

With the cost base being so low, Silver Wheaton earns a lot of money when prices begin to rise like they have in the past week. The company is truly a free cash flow machine, even in a tough environment.

Cash operating margins remained above 70% in the third quarter and Q4 is shaping up to be better.

## **2. Strong balance sheet**

The trick to securing good deals when miners are desperate is to have a war chest of cash available when the opportunities come up. Silver Wheaton finished Q3 with \$233 million in cash and a \$1 billion credit facility.

## **3. Strong production growth**

Even if gold and silver prices remain at or near current levels, cash flow will increase in the coming years as added production arrives from both new mines and expansion projects at existing sites.

For example, the Constancia project in Peru is almost finished and commercial production is expected to begin in the first half of 2015. Resource estimates at the Peñasquito mine in Mexico have been increased significantly, and an expansion at the Salobo copper mine in Brazil produced a record 10,415 ounces of gold in the third quarter.

Investors who believe that gold and silver prices have hit bottom should consider adding Silver Wheaton now while it is still being ignored by the big money. As soon as the herd decides the precious metals trade is back on, it might be too late to pick the stock up at such a bargain price.

Silver Wheaton is a value play and you need to be a bit of a contrarian to commit to the stock at current prices. If this suits your investment style, you might want to read the report below about two more companies that are setting up for a big surge.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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