



This Key Ratio Highlights Why Investors Should Invest in Silver Wheaton Corp.

Description

Precious metal prices continue to remain under pressure because of a strong U.S. dollar, markedly softer crude prices, and signs of an imminent rate rise by the Fed. This has caused silver to soften further, with its price plunging by 17% over the last year. Silver stocks have been hit hard because of weak silver prices, and the gold-to-silver ratio has widened significantly over the last year, making now the time for investors to make a contrarian bet on the lustrous white metal.

Now what?

The importance of the gold-to-silver ratio can't be overstated. The ratio expresses the closely correlated relationship between the prices of silver and gold by determining how many ounces of silver are needed to purchase one ounce of gold.

When the ratio is low it indicates that silver in comparison to gold is fairly valued, but with it now requiring 70 ounces of silver to buy one ounce of gold compared to 64 ounces a year ago, silver is clearly undervalued. This figure is also well above the long-term historical average of 58 ounces of silver for one ounce of gold.

These indicators signal that a rally in silver is imminent and that investors seeking exposure to precious metals should invest in silver in preference to gold.

So what?

I have been quite bullish on beaten-down primary silver miners **First Majestic Silver Corp.** and **Pan American Silver Corp.** because they seem attractively priced.

However, it is precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) that remains among my favourites for betting on a rally in silver. Like the miners, it is a levered play on silver, but unlike the miners it does not expose investors to the same degree of risk because it does not operate mining assets. Instead, it provides funding to miners in exchange for receiving a portion of the silver produced at fixed prices well below the market price. This has allowed it to remain profitable, despite markedly softer silver prices.

For 2014 the price per ounce of silver paid under the agreements Silver Wheaton has in place averaged US\$4.14 per ounce. This is a massive 78% discount compared to the average market price of US\$19.08 per ounce for that year. When coupled with the company's low cash costs of US\$4.59 per ounce compared to First Majestic's US\$9.58 per ounce and Pan American's US\$11.46 per ounce, it is easy to see why Silver Wheaton continues to perform strongly.

So what?

With Silver Wheaton being a significantly lower-cost operator than any of the miners, even the slightest uptick in the price of silver will translate into a significant increase in its bottom line. For this reason, its share price will appreciate more rapidly. Furthermore, its high-quality assets, as well as the lower risks associated with its operational model, make it is my preferred play for the long-awaited rebound in silver.

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1. Investing
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1. Editor's Choice

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

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