Is Silver Wheaton Corp. for Traders or Investors?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has been a dream stock for traders over the past two years, but long-term investors are getting frustrated and want to know if this streaming company is really worth owning.

Let's take a look at the current situation to see if Silver Wheaton deserves to be in your portfolio.

Trading range

For the past 24 months, Silver Wheaton has been in a defined trading range. On four separate rallies, the stock has struggled to break through the $30 mark. Each surge has been followed by a subsequent pullback of at least 20% and two of the retracements took the stock below $20.

At the time of writing, the stock is valued at about $24 and the charts suggest the ticker could be nearing another bottom. Traders are watching the indicators closely, but investors might also want to get ready to make a move.

Business model

Silver Wheaton has a very interesting business model. The company isn't a miner, but provides mining companies with upfront cash to secure the silver and gold by-product from facilities that are set up to produce another metal, such as copper.

In exchange for providing miners with valuable capital, Silver Wheaton is given the right to purchase gold and silver at very low prices.

How low?

The 2014 silver equivalent average cash cost per ounce was US$4.59. The company’s silver cost per ounce averages about US$4.00 and it paid about US$400 per ounce of gold. This means hefty margins, even at depressed gold and silver prices. The 2014 average realized sale price wasUS$18.92 per ounce of silver and US$1,261 per ounce of gold.

Recent weakness

Silver Wheaton recently sealed a long-term deal for an additional 25% of the gold stream produced at the Salobo copper mine in Brazil. The US$800 million deal with the mine’s owner, **Vale SA**, gives Silver Wheaton access to half of the gold output for the life of the mine. In order to pay for the deal, Silver Wheaton decided to issue US$800 million in stock. Fortunately, the shares were sold in a bought deal, which means the underwriting banks took on most of the risk.

As it turns out, the market didn’t like the deal and Silver Wheaton’s shares fell below the price paid by the banks, meaning they took a hit on the shares they had to unload at lower prices.

Production growth

In its Q4 2014 annual report, Silver Wheaton said 2014 silver-equivalent production was 35.3 million ounces. The company is forecasting production of 43.5 million ounces for 2015.

The exciting part for investors is the long-term outlook. Silver Wheaton has 18 contracts in place that are expected to boost production to 51 million ounces by 2019.

Should you buy?

Silver and gold prices are currently trading at depressed levels, but Silver Wheaton still enjoys large margins. The stock looks compelling based on the production growth, even at current metals prices. If silver and gold move higher, the stock could really take off.

If that happens, traders will probably bail out again at $30, but investors could see the shares move above $35 and beyond.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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