



Should Investors Buy Silver Wheaton Corp.?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has been getting beat up in the markets because of a deal that investors did not agree with. It issued US\$800 million so that it could acquire the right to 25% of the gold that comes out of **Vale SA's** upcoming copper mine. Because of where the price currently is, any investor that bought into that US\$800 million raise has already lost money.

But it's important to understand Silver Wheaton's business model when looking at this deal. Silver Wheaton doesn't really own and operate its own mines. Instead, what the company does is exactly what the above deal shows: it invests money in other mines that are looking for resources like copper and then takes a chunk of the silver and gold that is found.

You might ask why a mine would do that.

The primary reason is for the funding. It costs a lot of money to get a mine up and running. Rather than paying for the entire mine, companies like Vale SA only have to worry about a piece of the operation and all they have to do is give up some of the gold.

This benefits Silver Wheaton because the company doesn't have to operate any of the mines, which can be very expensive. It gets to take what it wants, when it wants without any of the other hassle. And that's how the company has built a big business acquiring large amounts of silver and some gold.

And the business model really is working. In 2014 the company's cost per ounce of silver was US\$4. It would then be able to sell it for close to US\$19. For gold, it was acquiring an ounce for US\$400 and then selling it for US\$1,260. It's such a basic business model, I'm sometimes surprised more don't try to do it.

The company expects that production will grow to 51 million ounces of silver by 2019 from 35.3 million in 2014. That's a lot of growth that will give the company even more money to work with.

So, what about buying?

I am an advocate of this company because silver has so much demand in the industrial world. And if

that demand continues—and grows—the price is just going to rise. Therefore, Silver Wheaton, in my eyes, is a buy.

But there is something to understand. For the past 18-24 months, the stock has bottomed out in the \$18-22 range, risen to about \$30, and then plummeted back down to the original range. This has happened a few times now, so traders are starting to really love this predictable trend.

Where the stock is now is definitely an attractive point of entry, but it could go lower. If you ask me, as long as you're in the \$18-22 range, you're in a good place. But know that if it doesn't break through \$30, it'll drop in price again.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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

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