



Is Silver Wheaton Corp. Headed Back to \$30?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has been a great stock for traders in the past 24 months, but investors want to know if a long-term rally is in the works.

Let's take a look at the company to see if it deserves a spot in your portfolio.

Technical trend

On the TSX, Silver Wheaton has bounced between \$20 and \$30 no less than four times in the last two years. The bottom of the retracements normally occurs below \$23 and the rally seems to run out of steam at \$29. Clever traders who've spotted the pattern have picked up some nice gains on the moves.

At the time of writing, the stock is trading at about \$24.50. It hit a low of \$23.16 on May 6.

What about investors?

Here at *Motley Fool Canada*, we focus on long-term buy-and-hold investing. While Silver Wheaton has offered some opportunities for traders in the past two years, investors are looking at the fundamentals and seeing some good signs.

The company has a unique business model that allows it to earn high margins in weak gold and silver markets.

As a streaming company, Silver Wheaton doesn't own mines; it simply buys gold and silver by-product from mines that are producing another metal, such as copper.

In exchange for much needed capital, mining companies give Silver Wheaton the right to buy the gold and silver at very low prices.

In fact, the company's 2014 average silver equivalent cost was US\$4.59 per ounce. Silver Wheaton typically pays about US\$400 per ounce of gold and US\$4 per ounce of silver.

As you can see, the margins are quite healthy. In 2014 the company sold its silver for an average price

of US\$18.93 per ounce and its gold for an average US\$1,261 per ounce.

Production

Silver Wheaton recently signed a deal for 25% of the gold output at the Salobo copper mine in Brazil, owned by **Vale SA**. The deal was financed through a large share offering that didn't go over well with the market, but management has a proven track record of securing supply at advantageous moments, and the new Salobo arrangement should prove to be profitable.

Silver Wheaton expects annual production across all of its agreements to grow from 35.3 million silver equivalent ounces in 2014 to more than 51 million in 2019.

Even if gold and silver prices remain at current levels, Silver Wheaton should see strong revenue growth.

Should you buy?

Trading stocks is a risky way to use your investment money. The recent pop in Silver Wheaton could be the start of a new rally or just another head fake before heading back to \$20. Beyond the short-term volatility, the broader outlook for the stock is compelling and investors should consider it for that reason.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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