Why Is Silver Wheaton Corp. the Best Bet for a Precious Metal Comeback?

Description

Some investors like to keep a portion of their portfolios in precious metals. Some like to buy the physical metals and place it a safety deposit box at their bank. Others like to get exposure by buying ETFs such as **SPDR Gold Trust** and **iShares Silver Trust**. However, neither of those pay a dividend. You might as well get something back for while you wait right?

That's where **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) comes in. The world's biggest precious metal streaming company currently pays a 1% yield. That's hardly a large yield, but it still beats the ETFs.

Revenue

About 62% of Silver Wheaton's revenue comes from silver, and 38% from gold. In the next five years the company forecasts the percentage of revenue from gold production to increase to around 46%, while predicting silver production to reduce down to roughly 54%.

Business model

What makes Silver Wheaton the safest precious metal company is its business model. Silver Wheaton has agreements with multiple mines to purchase a fixed percentage of silver and gold from them at a low, fixed cost for the life of the mine.

These mining partners don't mine for gold or silver as their primary product. So, it is a win-win partnership between these miners and Silver Wheaton.

That's right. Silver Wheaton doesn't run its own mines, meaning there's no ongoing capital or exploration spending that can become costly quickly. Silver Wheaton only has to pay the initial upfront payment for the precious metals, as well as delivery payments of those metals. Historically, Silver Wheaton pays a fixed cost of roughly US$4 per ounce of silver, and US$400 per ounce of gold.

Currently, Silver Wheaton has streaming agreements for 21 operating mines and six development stage projects.

Factors for shareholder value

Factors that contribute to shareholder value include the following:

1. Leverage to increases in the price of silver and gold

By buying these precious metals at fixed costs, Silver Wheaton can skyrocket when silver and gold prices increase.

2. Additional growth through the acquisition of new streams

The more new streams are acquired, the more silver and gold Silver Wheaton is able to sell, and that increases revenue.

3. A dividend yield that has the potential to grow over time

Silver Wheaton’s quarterly dividend is equal to 20% of the average cash generated by operating activities in the previous four quarters. So again, the more precious metals it sells and/or the higher precious metals increase in price, the higher the dividend goes.

4. Participation in the exploration success of the mines underlies its current agreements.

The biggest risk is that precious metal prices stay low for an undefined multi-year period. Since the high in 2011, the silver price has continued to plummet, though it seems to have stabilized, trading in a tight range since November 2014. The gold price story is similar.

A minor risk is if any mine associated with Silver Wheaton failed, it will have less precious metals to sell.

In conclusion

When precious metal prices start to pick up, Silver Wheaton should be the first consideration for investors for a safe way to gain exposure to silver and gold.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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