



Silver Wheaton Corp.'s Latest Transaction Is Yet Another Reason to Invest

Description

In March this year Silver Wheaton acquired the rights to 25% of the gold production from **Vale SA's** Brazilian Salobo base metals mine for a total of US\$900 million. This latest acquisition now gives Silver Wheaton the rights to half of the mine's total gold output for the life of the mine. While it has created concern among some investors, I believe it is yet another solid acquisition that enhances Silver Wheaton's growth profile, and over time, will deliver considerable value for investors.

Now what?

The acquisition will significantly boost Silver Wheaton's production and cash flow profile, adding an additional 60,000 ounces of gold production annually for the next 30 years. It will also boost the proportion of its revenue derived from gold to 38% for 2015, up by 10% from 2014. This is an important attribute of the acquisition, because it will reduce the company's dependence on silver, which has shown itself to be highly volatile and caught in a long-term bear market since the collapse of the precious metals bull market. As a result, silver is now trading at its lowest point since early 2010, yet gold has recovered to now be trading at just over US\$1,200 per ounce.

Furthermore, gold prices are expected to rally further. You see, growing global macroeconomic and geopolitical uncertainty, as well as sharply lower commodity prices, are driving renewed interest in safe haven investments, of which, gold is the most widely recognized.

Based upon projections for the first 30 years of the mine's production life, Silver Wheaton will receive an average of 60,000 ounces of gold annually and pay \$400 per ounce. Even after factoring in the initial US\$900 million payment, Silver Wheaton will pay a total cost of US\$900 per ounce before it is adjusted for inflation. This is significantly lower than the spot price which gives Silver Wheaton a 25% margin because gold is now trading at US\$1,206.

More impressively, with gold expected to appreciate in value over the long term, this margin can only grow, helping to boost Silver Wheaton's earnings and bottom line.

So what?

I believe this is an accretive deal for Silver Wheaton. It diversifies both its long-life asset base and production, while boosting its growth prospects. This will create additional long-term value for shareholders and enhances the sustainability of its dividend, making it a superior play on gold and silver than bullion or an exchange traded fund (ETF).

You see, Silver Wheaton is a levered play on the underlying commodity prices, but it comes with a far lower degree of risk than the miners. This is because it doesn't operate any mines and does not need to make the same large capital investments required to sustain mining activities and production.

What's more, it pays a regular dividend yielding 1%, whereas neither bullion nor ETFs provide investors with a regular income stream. For these reasons, Silver Wheaton offers investors the best way to gain exposure to gold and silver in order to hedge their portfolios against economic uncertainty.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Date

2025/08/04

Date Created

2015/05/25

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