



## Is Silver Wheaton Corp. a Great Pick for Contrarian Investors?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is trading at five-year lows and contrarian investors are looking at the long-term outlook with a sparkle in their eyes.

### Tough times

The past few months have been unkind to Silver Wheaton and its shareholders. Most of the pain is connected to weak gold and silver prices, but the stock has also fallen victim to a couple of other events.

In early March Silver Wheaton announced an agreement to purchase an additional 25% interest in the gold production of the Salobo copper mine in Brazil. Management decided to finance the deal by issuing US\$800 million in new stock through a bought-deal arrangement with a syndicate of underwriters. The market didn't like the deal and sent the shares lower after the announcement.

More recently, Silver Wheaton has become a target of the Canada Revenue Agency (CRA). On July 6 the company released a statement saying the CRA sent it a proposal letter indicating a possible reassessment of Silver Wheaton's tax fillings for the years 2005-10. The issue is connected to income earned by Silver Wheaton's foreign subsidiaries.

If the CRA is not content with the response it gets from Silver Wheaton regarding the proposal letter, it could send a notice of reassessment, which would result in Silver Wheaton being required to pay 50% of the disputed amount. The company would then have to fight the reassessment in court.

At the moment, Silver Wheaton is not required to pay any amount, but management says the extra tax payments could be greater than US\$200 million if the company loses the case.

The stock has fallen about 15% since the CRA news came out.

### Strong production outlook

Investors could be forgiven for running away right now, but the growth projections for the company are

quite appealing.

For 2015 Silver Wheaton expects production of 43.5 million silver equivalent ounces, which includes 230,000 ounces of gold. By 2019 production should hit 51 million silver equivalent ounces, including 325,000 ounces of gold.

The company's business model is quite unique. Silver Wheaton does not take on any of the operational risks faced by miners. It simply pays an upfront fee for the rights to the gold and silver produced at mines that are normally set up to produce a different metal such as copper.

It's a very profitable business because Silver Wheaton only pays about US\$400 per ounce of gold and about US\$4.00 per ounce of silver. Even in the current market, operating margins can be quite high. In Q1 2015 the cash operating margin was US\$12.44 per silver equivalent ounce.

### **Should you buy Silver Wheaton?**

Silver Wheaton offers a great way to play a gold and silver rally. If you have a contrarian streak and are a long-term precious metals bull, there is a case to be made for starting a small position at the current price.

Although the stock is cheap right now, new investors will have to be patient. The CRA investigation could drag on for a long time, and that might hold back the shares until the market has better clarity on the outcome.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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