



Despite Recent Headwinds, Now Is the Time to Buy Silver Wheaton Corp.

Description

In recent months, the markets have been tough on precious metals streaming company **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Its share price has plunged by 30% year-to-date because of a range of headwinds that potentially may have a marked impact on its short-term outlook. Despite this, I believe Silver Wheaton is attractively priced, particularly with it trading at almost half its 52-week high.

Now what?

The recent weakness in the price of silver is certainly not helping Silver Wheaton. The lustrous white metal has dipped by 3% since the start of the year to now trade at its lowest level in almost six years, and the short-term outlook remains pessimistic.

Silver Wheaton's acquisition of an additional 25% interest in the gold production from **Vale SA's** Salobo mine in Brazil for US\$900 million didn't appeal to the market, despite the fact it diversifies Silver Wheaton's revenue by boosting its exposure to gold.

However, this may have more to do with how Silver Wheaton paid for the acquisition rather than the purchase itself.

You see, Silver Wheaton funded the deal through a combination of cash on hand and bought finance to the tune of US\$800 million in exchange for issuing 39 million shares at US\$20.55 each.

Despite all of the issues, the big killer is the recent announcement that the CRA is seeking to reassess Silver Wheaton's income for tax purposes for the years 2005 to 2010. The CRA wants to increase Silver Wheaton's assessable income by \$715 million, which means it would be liable for an additional tax of US\$150 million as well as transfer pricing penalties totaling US\$57 million.

While Silver Wheaton has announced that it will vigorously defend its tax filings and believes it has acted in full compliance with the law, the market is baking in the risk that it is facing a massive payment if found in contravention of the law. This is a very real risk because the CRA can potentially rely on the general anti-avoidance provisions in the Income Tax Act.

Another fear is that should the CRA emerge victorious, then Silver Wheaton may be liable to pay more income tax in the future.

So what?

Regardless of this maelstrom of bad news, Silver Wheaton is what I believe to be the best way to gain exposure to silver without taking on the risks associated with mining. Silver Wheaton's long-term outlook remains positive.

Not only has it amassed a considerable asset base of 756 million ounces of silver and nine million ounces of gold, but it appears attractively priced when we drill into two key metrics. It currently trades with an enterprise-value of a mere five times its reserves and 15 times its forecast 2015 EBITDA.

What makes Silver Wheaton stand out in the current operating environment is that its streaming model allows it to purchase silver well below the spot price as well as operate with a far lower cost structure than miners. This means that even now, with silver prices being weak, it is able to remain profitable while waiting for silver to rally.

Let's not forget that sustainable dividend yielding 1% that will see investors rewarded for their patience as they wait for Silver Wheaton's share price to appreciate.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/04

Date Created

2015/07/17

Author

mattsmith

default watermark