



Why Silver Wheaton Corp. Is a Great Turnaround Opportunity

Description

Since I wrote about **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) two weeks ago when it dropped 11%, it has dropped further from \$19.70 to \$16.30, another 17% drop. At the time, I cautioned investors to wait until the Canadian Revenue Agency (CRA) issue is cleared up, but honestly, I did not expect the decline to be this extreme.

This is not only due to the possibility of Silver Wheaton having to pay more taxes to the CRA, but also to the fact that the price of silver is at its five-year low, close to US\$14.

The risk/reward is attractive

For the long-term investor who believes that the world needs silver, the risk/reward table has turned. There's reason [why the price of silver could soar](#).

Silver Wheaton's cost per ounce of silver is about US\$4 and the cost per ounce of gold is about US\$400. Even with the decline in the price of silver at US\$14 and gold at US\$1105, Silver Wheaton is still profitable.

With the cost of mining being unsustainable, and mines shutting down temporarily as a result, the supply of silver will eventually diminish as the demand for the precious (seemingly not so precious now) metal continues.

There are many uses of silver, including in the areas of electrical, electronics, coins, metals, photography, jewelry, silverware, and so on.

The business

Let's not forget that Silver Wheaton's long-term business model as a silver streaming business is still the safest around. It doesn't pay any ongoing capital or exploration costs required by other mines. Instead, Silver Wheaton pays other mines a fixed cost for their silver and gold by-product.

Specifically, Silver Wheaton has agreements with various mines to buy a fixed portion of silver and

gold from them at a low fixed cost for the life of the mine.

What should investors do?

If you're looking for exposure to precious metals, I believe Silver Wheaton is the best bet. There's a slim chance the company would default because it has low debt levels. Most importantly, there's no chance to lose with its business model as a streaming company.

If you believe precious metals will eventually increase in price, there's no reason to buy silver or gold bullion or coins, unless you like their shininess, because Silver Wheaton pays you a dividend while bullion and coins don't. So, you get paid to wait when you hold Silver Wheaton. Currently, the company pays a 1.5% yield, although that yield is based on the cash generated by operating activities in the previous four quarters.

In other words, you won't invest in Silver Wheaton for its dividend, but to get safe exposure to precious metals.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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