



Investors Should Get Behind Silver Wheaton Corp. for Silver Exposure

Description

Investors in **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) have experienced quite the rocky road these past few months. The shares dropped by 30% year-to-date due to numerous issues. One, in particular, is that the Canadian Revenue Agency is investigating it for tax issues.

While some investors would argue against investing in a company that is under investigation, I don't really see that as a problem because the issues are already baked into the price. And the significant drop is likely worse than the outcome of the investigation, so even on bad news, the stock could rise.

So despite it all, I think investors should absolutely look at Silver Wheaton as a possible holding, especially if you are a believer in precious metals. The primary reason is because of the business model it has implemented.

Unlike buying an actual silver mine, what you are buying here is a silver streamer. What a silver streaming company does is offer to buy up a percentage of the mine's silver from a mine that is looking for another type of resource. What commonly happens is that, while digging for one base metal, silver is also found. This silver by-product isn't really useful to the mine, but for Silver Wheaton, it is.

What makes the business model so sweet is that because Silver Wheaton is paying upfront for the silver, it is getting it at a significant discount. For example, if silver cost \$19/ounce, the company might only wind up paying \$4.50. The difference in the market rate and what Silver Wheaton pays is the profit.

The reason that this works for both parties is rather simple. Starting a mine is expensive. The exploration, discovery, and digging can cost hundreds of millions of dollars. By agreeing to sell the silver, and sometimes gold, to Silver Wheaton, these new mines are able to finance the operation with more ease. And since there is no guarantee that there is silver, the mine doesn't have to worry. Silver Wheaton assumes the risk and if there is no silver, it loses its money.

Fortunately, the company is very good at identifying assets that have the resource it is looking to acquire. And it is very good at making deals that will ensure it has sufficient resource to sell as the price of silver and gold increase.

But what is important to understand about a company like this is that it is entirely dependent on the price of its resource. If gold and silver drop in price, the spread between what the company pays and the value of the resource gets smaller. That spread is the profit margin for the company. Therefore, this stock can often get beat up when the price of the resource fluctuates.

All told, I believe there is a bright future for silver and therefore, a very bright future for Silver Wheaton. And while we wait for the price to return to higher levels, investors can enjoy a 1.50% yield.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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