



3 Reasons Why Silver Wheaton Corp. Is a Buy

Description

From its 52-week high of \$29, **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) has declined to below \$17, over 40%. Sure, the company is plagued by the possibility that it might have to pay more taxes to the Canadian Revenue Agency, and silver and gold prices remains at multi-year lows.

Silver is at a five-year low under US\$15 per ounce, and gold is also at a five-year low at about US\$1,100 per ounce. Why might you want to buy Silver Wheaton today?

1. Low-risk business model

Silver Wheaton is the safest precious metal company because it's the largest precious metal streaming company in the world. Silver Wheaton has agreements to purchase silver and gold from multiple mines at a low fixed cost. These mining partners end up mining gold or silver as a by-product. So, it is a win-win partnership between miners and Silver Wheaton.

Silver Wheaton owns silver and gold interests in 20 operating mines, but Silver Wheaton doesn't run any of those mines. It doesn't have any ongoing capital or exploration spending that can quickly become costly with traditional miners.

Instead, Silver Wheaton only has to pay the initial upfront payment for the precious metals, as well as delivery payments of those metals. Historically, Silver Wheaton pays a fixed cost of US\$4-6 per ounce of silver, and US\$400 per ounce of gold.

If you look at Silver Wheaton's peers, 99% of them have negative net income right now, yet Silver Wheaton's is positive at \$169 million.

2. Potential to soar when precious metals prices rise

Silver Wheaton derives roughly 60% of its revenue from the sale of silver and about 40% of its revenue from the sale of gold. The fixed costs incurred to obtain precious metals reduces Silver Wheaton shareholders' downside risk while simultaneously providing the upside to rises in precious metals prices.

About 70% of silver production comes as a by-product from base metal and gold mines. These metals have declined for the past few years as well, leading to reduced capital expenditure plans by these miners. So, silver as a by-product would likely diminish in time.

Commodity prices are dependent on the supply and demand curve. With supply diminishing, it will be a matter of time before commodity prices go up, at which time, Silver Wheaton will soar.

3. Decade-low valuation

Under \$17, based on the price-to-book and price-to-sales ratios, Silver Wheaton is the cheapest it has been in a decade. Its price-to-cash-flow ratio is the second cheapest in a decade.

In conclusion

If investors want to bet on the rise of precious metal prices, Silver Wheaton would serve well in a diversified portfolio. Foolish investors should not bet their farms on Silver Wheaton, but if you believe precious metal prices will go up, Silver Wheaton is the safest investment for that. Currently, Silver Wheaton only makes up 1% of my portfolio.

CATEGORY

1. Dividend Stocks
2. Investing
3. Metals and Mining Stocks

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1. Editor's Choice

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