



Could Silver Wheaton Corp. Double by Year End?

Description

It has been a tough year for **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and its shareholders, but there is a lot to like about the stock and investors should see the short-term weakness as an opportunity to add to their positions.

Silver market

Silver has many uses beyond its jewellery appeal. The metal is a core component in the rapidly expanding solar power industry and is gaining more importance in the global health care sector.

As the cost of producing solar panels continues to drop, people are starting to choose solar as a power source based on the stand-alone economics. That should translate into much higher silver demand in the coming years because the metal is an important component in the production of the panels.

Silver also has attractive antibacterial qualities, and the medical community is starting to turn to the precious metal in the ongoing battle against bigger, badder bugs.

Silver is now used in the production of surgical instruments, water purification systems, and even bandages.

Unique business model

Silver Wheaton isn't a miner. The company simply does deals with mining companies to buy the silver by-product that comes out of mines set up to produce other metals such as copper and zinc.

Mining companies need a lot of money to develop new sites or expand existing facilities. When stock and commodity prices are very high, companies have little trouble raising capital to fund their projects. In the current environment, getting money is difficult, so miners turn to Silver Wheaton for help.

In exchange for providing upfront capital, Silver Wheaton is given the right to purchase the silver or gold produced at a mine for very low prices.

How low?

The company pays about US\$4.00 per ounce of silver and US\$400 per ounce of gold. Even at current prices, the company enjoys solid margins.

Production growth

Silver Wheaton expects production to be 43.5 million silver equivalent ounces in 2015, including 230,000 ounces of gold. By 2019 production will hit 51 million silver equivalent ounces with a gold component of 325,000 ounces.

Risks?

The Canada Revenue Agency (CRA) recently contacted Silver Wheaton about its tax filings for the years 2005-2010. The issue is connected to income earned by Silver Wheaton's foreign subsidiaries.

If the CRA sends a notice of reassessment, Silver Wheaton will be forced to pay 50% of the disputed amount. The company would then have to fight the reassessment to get the money back and avoid paying the other half.

Silver Wheaton says the extra tax payments could be greater than US\$200 million if it loses the case.

Should you buy Silver Wheaton?

The CRA case is a distraction, but the money at risk is much smaller than the huge drop in market capitalization since the CRA's July 6 announcement.

As such, the stock is probably oversold right now.

Any positive movement in gold and silver prices could send Silver Wheaton much higher in a short period of time. A double by year end would require a significant precious metals recovery, and that probably isn't going to happen.

However, the long-term outlook for silver is very good and investors could easily see that 100% gain over the next three or four years.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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