



## 3 Big Reasons to Buy Silver Wheaton Corp.

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is down 37% in the past six months, but the stock is getting a bit of a tailwind in recent days and the long-term fundamentals are compelling.

Here's why.

#### 1. Silver demand and supply

Silver is very popular among jewellery buffs, but that's not why investors should be bullish. The precious metal also has commercial uses that are really starting to ramp up.

Solar technology continues to improve by leaps and bounds, and panels are getting to the point where they can viably hold their own on a cost basis.

In fact, massive commercial solar installations are popping up across the globe, and retail buyers can even afford to make solar power their first choice for financial reasons, and not just because it is good for reducing reliance on fossil fuels.

The health industry is also turning to silver to help battle nasty bacteria. Silver has attractive antibacterial qualities that make it an increasingly important component in the production of water purification systems and surgical instruments.

On the supply side, most silver is produced as a byproduct of mining operations set up to produce other metals such as lead, copper, and zinc. The rout in commodity prices has mining companies delaying expansion projects and shelving plans to open new mines.

This is going to put a squeeze on silver supplies in the next few years just as industrial demand is increasing.

#### 2. Low-risk business model

Silver Wheaton doesn't actually own any mines, it simply negotiates contracts that give it access to the

silver and gold output at a mine. This is appealing to investors because it removes direct exposure to operating risks.

These deals are normally done at very favourable prices, so Silver Wheaton tends to enjoy strong margins. In fact, Silver Wheaton buys the gold for about US\$400 per ounce and the silver for US\$4 per ounce.

Why do mining companies sign these deals?

Mining is a very capital-intensive business. Companies need a lot of money to build or expand their mines, and capital can be hard to come by when market conditions are difficult. Silver Wheaton provides miners with the upfront cash they need to get the mines into operation. Again, these are normally mines set up to produce base metals, so the deal works well for both parties.

### **3. Production outlook**

Silver Wheaton's existing contracts should deliver strong production growth over the next three years. The company expects 2015 production to be about 43.5 million silver equivalent ounces. By 2019 that number should hit 51 million ounces.

#### **Canada Revenue Agency (CRA) battle**

Silver Wheaton recently received a letter from the CRA regarding filings for the 2005-2010 tax years. The tax agency has some concerns with income reported from Silver Wheaton's foreign subsidiaries.

If the CRA sends a notice of reassessment, Silver Wheaton will have to pay 50% of the disputed amount, and then fight the reassessment to get its money back.

The company says the total sum owed could be greater than US\$200 million if it loses the case.

#### **Should you buy Silver Wheaton?**

At this point, the CRA issue is already baked into the stock price, and while it is a distraction, there shouldn't be much more downside risk connected to the case.

The shares have fallen to a level where a small recovery in silver prices could send the stock significantly higher. The long-term fundamentals look great, so investors should be comfortable holding the stock.

#### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

#### **TICKERS GLOBAL**

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

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1. Investing

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