



Is it Time to Buy Silver Wheaton Corp.?

Description

Now that precious metals prices are finally catching a bit of a tailwind, investors are wondering if this is the moment they should be entering some of the sector's beaten-up names.

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is one of the most popular stocks in the space and shareholders are finally getting some relief. In fact, the stock is already up 12% in just the past month.

Let's take a look at the current situation to see if this could be the start of a significant rally.

Market fundamentals

Silver prices have been under pressure for some time, but that situation could change dramatically in the next couple of years. Silver is a popular choice for creating jewellery, but the metal's growing industrial uses could drive demand and prices much higher.

Most people know that silver plays an important role in the conversion of solar energy into electricity. The solar industry is going through a renewed boom right now because production costs are finally getting to the point where the technology can compete without the aid of subsidies.

Massive industrial solar installations are popping up all over the world, and retail buyers are even considering the installation of solar panels for economic as well as environmental reasons.

This all means that silver demand is set to soar.

Another area of growth is the medical industry. Besides being a great conductor, silver also contains valuable anti-bacterial attributes. As doctors and hospitals wage the ongoing war with nasty bugs, silver is being called upon to help fight the battle. The metal is being used in everything from water purification systems to surgical instruments.

Market prices are a function of demand and supply. About 70% of the world's silver comes from mines set up to produce other metals such as copper and zinc. The market for the base metals has been brutal, and that means very few new mines or mine expansions are currently in the works.

As silver demand rises in the coming years, production growth might not keep up.

Business model

Silver Wheaton has a unique business model that appeals to investors because it offers a chance to benefit from a rally in gold and silver without taking on the risk of buying the actual miners.

Silver Wheaton doesn't own any mines; it simply provides mining companies with upfront capital to help them move from development into production. In exchange for the much-needed cash, Silver Wheaton is granted the right to purchase the silver or gold byproduct from the mine at very favourable prices.

How favourable?

In its Q2 2015 earnings statement, Silver Wheaton reported an average cash cost of US\$4.26 per ounce of silver and US\$395 per ounce of gold. That means the company still enjoys decent margins.

Production growth

Silver Wheaton is in a great position to profit from a rebound in gold and silver prices. The company expects production growth in 2015 to be greater than 20%. Output exceeded 21 million silver equivalent ounces in the first half of 2015 and the company is targeting 43.5 million silver equivalent ounces for the full year.

By 2019 production should be at 51 million ounces and most of that growth is already fully funded.

Should you buy Silver Wheaton?

One item holding the shares back is a disagreement with the Canada Revenue Agency (CRA) over taxes paid on revenue earned by Silver Wheaton's foreign subsidiaries. The discussion is ongoing and Silver Wheaton says its exposure is about US\$200 million if it loses the case. The CRA issue is already baked into the stock, so there should be little downside risk attached to that story.

The fundamentals for the company look attractive. If you are a long-term precious metals bull, this is a good time to start accumulating some Silver Wheaton stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Date

2025/08/04

Date Created

2015/08/20

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