



## Is Silver Wheaton Corp. the Best Way to Invest in Silver's Recovery?

### Description

As the markets continue to melt down, investors are starting to get interested in precious metals again. Both gold and silver have rallied off of recent lows, but they're still both much lower than the peaks set in 2011.

If market action continues to be weak, there's certainly a case to be made for owning both silver and gold. Uncertainty tends to send nervous investors reeling towards assets like bonds, real estate, and precious metals. Many investors tend to like silver more than gold because of its widespread use in industry, its cheaper price, and its potential future upside as a key component to solar energy production.

But what's the best way to play a silver recovery? Is it through the largest silver company out there, **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW), or is there a better way? Let's have a closer look.

### The case for Silver Wheaton

There's one big reason why investors tend to prefer Silver Wheaton over competitors, and that's the relative safety of its business.

Silver Wheaton isn't a traditional silver producer. Rather, it finances stakes in silver mines that are coming to market, giving the producer a big chunk of cash up front in exchange for buying a portion of its production at a steeply discounted price over the life of the mine. It then sells that production to the market, locking in a profit without the risk of operating the mine.

There's a huge advantage to not having to take operational risk, as we've seen in the last few years. If a company brings a high-cost mine online only to have prices collapse, it either has to lose money on it while waiting for a recovery, or shut the mine down completely. Neither of these two options are ideal, especially after spending millions to develop the mine in the first place.

But investors are paying a high price for the safety that Silver Wheaton offers. Shares currently trade hands at more than 33 times the company's trailing 12-month earnings, and that's after falling more than 35% over the last year. Analysts do predict earnings will increase to \$0.78 per share for all of

2015, but that still puts shares at a relatively expensive P/E multiple of 23.4.

An investment in any silver company is a bet on the commodity; that much is obvious. Silver Wheaton is a safer way to make that bet, which is why it trades at a higher valuation than what I might deem as being attractive. How about another option?

### **The case for other producers**

Although the numbers look ugly on the surface, **Pan American Silver Corp.** (TSX:PAA)(NASDAQ:PAAS) looks to be a relatively attractive way to play silver's recovery.

The company did lose \$3.60 per share in 2014, but that was due to massive write-offs. If you exclude the non-cash items, it did squeak out a small operating profit, and only had a negative free cash flow of \$7 million. In a move to further conserve cash, Pan American slashed its dividend by 60%.

Its balance sheet is exactly what you want to see from a company trying to turn things around. It has \$275 million in cash, a negligible amount of debt, and a book value of approximately \$10 per share compared with a current share price of \$9.60.

Cash costs for the company are also coming down. In the second quarter of 2014, it cost Pan American \$12.51 to mine an ounce of silver. In its most recent quarter, that declined to \$9.44 per ounce. All-in sustaining costs fell by a similar amount, from \$17.98 to \$14.46 per ounce.

It's obvious why a company like Pan American would benefit more from a much higher silver price compared with Silver Wheaton. Since the price of the commodity is just a little more than its all-in sustaining costs, every penny of silver's increase falls straight to the bottom line. Then investors get bullish on silver, and good things start to happen to the share price.

Silver Wheaton offers the safer route for investors looking to bet on the commodity. A silver producer is riskier, but has more potential upside. Either way, if silver does do well, both companies will end up higher.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NYSE:PAAS (Pan American Silver)

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