Could These 2 Unloved Stocks Rise 100%?

Description

The Canadian market is full of beaten-up commodity stocks. Some of the names won't survive, but others are likely to come roaring back once the cycle turns. Here are the reasons why I think investors should put **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and **Cameco Corporation** (TSX:CCO)(NYSE:CCJ) on their watch lists.

Silver Wheaton

The precious metals sector continues to struggle as gold and silver remain out of favour, but Silver Wheaton is well positioned to rally on a rebound. The company is a unique name in the space because it doesn't operate any mines; it simply provides mining companies with the money they need to get projects up and running.

In exchange for this much-needed cash, Silver Wheaton secures the right to purchase gold or silver by-products from the miner at very attractive prices. How attractive? In Q2 2015, Silver Wheaton had 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 strong margins, even at the current low prices.

Silver Wheaton expects 2015 production growth of 20% with full-year output guidance set at 43.5 million silver equivalent ounces. That number should grow to 51 million ounces by 2019. The best part for investors is the fact that almost all of this growth is already fully funded.

On the demand side, the situation also looks good. Silver is an important component in the production of solar panels. The solar industry is at a point where costs have come down enough to make the technology competitive without subsidies. Massive industrial installations are popping up around the world and the economics are also becoming attractive for retail buyers.

Silver prices will eventually recover and Silver Wheaton's margins will expand significantly when that happens.

Cameco Corporation

The four-year slump in uranium prices has been tough on Cameco and its shareholders, but there could be better days on the horizon. Uranium prices have dropped by 50% from $70 per pound in 2011 to about $36 per pound today.

At the current price most global producers are either losing money or barely treading water. This has led to the delay or outright cancellation of new projects, and that situation is likely to cause a supply squeeze in the coming years.

Cameco expects to see 82 net new reactors go into service in the next 10 years. As secondary supplies get used up, new production isn't going to be adequate to meet the demand increase and the market could get pinched. When that happens, Cameco is going to get a big lift because it is one of the industry’s lowest-cost producers and owns some of the richest reserves on the planet.

Could Silver Wheaton and Cameco double?

Both companies are involved in tax disputes with the Canada Revenue Agency over taxes paid on earnings from international subsidiaries. The risks are well known to the market and the possible losses are probably fully priced into the stocks.

If the outcomes turn out to be less than the worst-case scenarios, both stocks could get a big boost. If this happens when commodity prices are recovering, it is easy to see both these companies trading at double their current prices.

Should you buy?

The fundamentals look good for both Silver Wheaton and Cameco. If you are a contrarian investor, it might be a good time to start a small position to make sure you get ahead of the curve.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. TSX:CCO (Cameco Corporation)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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aswalker