



## Should Silver Wheaton Corp. Be Your Top Pick in the Precious Metals Sector?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is a favourite among investors looking to play a rebound in silver and gold prices, and there are solid reasons to hop on this bandwagon.

Let's take a look at the current situation to see if Silver Wheaton belongs in your portfolio.

### Unique business model

Silver Wheaton is an interesting company because it doesn't actually own any mines. The company simply provides money to mining companies to help them get new projects into production. In exchange for the upfront cash infusion, Silver Wheaton secures the right to buy gold and silver by-product for very attractive prices.

How attractive?

In its Q2 2015 earnings statement Silver Wheaton said its average silver cost was US\$4.26 per ounce and it paid just US\$395 per ounce of gold. That means the company still enjoys strong margins, even in the current environment.

Mining companies do this because the gold and silver output is small compared to the copper or zinc that the mine is set up to produce. In times of low prices, it is difficult for mining companies to raise funds. Silver Wheaton is often the most economical source of cash.

### Fully funded growth

Silver Wheaton expects 2015 production to be 20% higher than last year. Output in the first half of 2015 was above 21 million silver equivalent ounces and management expects the year-end number to be close to 43.5 million ounce.

The company has a number of contracts in place that should push production above 50 million ounces by 2019. The best part for investors is the fact that nearly all of this growth is already fully funded.

If silver and gold prices start to move higher, investors just have to sit back and watch the cash roll in.

### **Will prices rise?**

Gold is tough to call because it has little value other than its appeal for jewellery. Silver is a different story. The metal has a number of important industrial uses and the demand outlook is compelling.

Silver is a key component in the production of solar panels. The solar industry continues to reduce production costs and panels are now getting to the point where they can be economically competitive with other sources of energy without having to rely on large subsidies.

Massive industrial installations are going up all around the world and retail buyers are now even considering panels for economic as well as environmental reasons.

Silver is also being used more frequently in the production of medical instruments. The metal has strong antibacterial qualities that help medical professionals in their battle against nasty bugs.

At the same time, production growth is limited. About 70% of the world's silver is produced as a by-product at base metal mines. Copper and zinc prices are so low that new projects are being delayed or even cancelled.

In the next few years, there could actually be a silver supply squeeze.

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

One risk holding the stock back is a tax battle with the Canada Revenue Agency (CRA). The issue is in its early stages, but Silver Wheaton says it could be on the hook for about US\$200 million if it loses its case. I think the CRA situation is already priced into the stock, so there shouldn't be much downside connected to that.

The overall fundamentals look good. If you are a precious metals bull, Silver Wheaton is arguably one of the best ways to play a silver and gold rally.

### **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**

2015/09/03

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