



Could Silver Wheaton Corp. Double in the Next 12 Months?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is down more than 40% in the past 12 months, but some contrarian investors are looking at the fundamentals and betting those losses are going to be short-lived.

Let's take a look at the current situation to see if Silver Wheaton might be on the verge of a big rally.

Silver market outlook

Silver prices have been in the tank this year and that has impacted Silver Wheaton's shares, but the long-term outlook for the precious metal suggests better times are on the horizon.

Unlike gold, which has little value beyond its appeal for jewellery, silver actually has a wide variety of industrial uses.

Most people are familiar with silver's role in the production of solar panels, and that space is really heating up. As the industry continues to lower production costs, solar power is becoming more attractive.

Industrial installations are popping up around the globe and retail buyers are even considering the technology as a viable option based on the standalone economics. This trend should continue and that is expected to push up silver demand.

The medical field is another area of growth. Doctors around the world continue to battle against ever-stronger bugs, and many hospitals are turning to the antibacterial qualities of silver to help fight the war.

Silver is increasingly being used in the production of medical instruments and water purification systems and it is easy to see how that market could grow significantly in the coming years.

On the supply side, silver is also starting to look attractive. Most new silver production is created as a by-product at copper and zinc mines. Base metal prices have dropped to a point where miners are being forced to delay or cancel new developments. That is going to put a squeeze on silver supply in

the coming years.

Silver Wheaton's unique business model

Every day it seems a major mining company announces a production cut due to unforeseen issues. Silver Wheaton doesn't have those operational risks. The company isn't a miner; it simply provides upfront money to mining companies to help them get base metal mines into production. In return for the cash infusion, Silver Wheaton secures the right to purchase gold and silver by-product at very low prices.

How low?

In the company's Q2 2015 earnings statement Silver Wheaton said it paid an average US\$4.26 per ounce for its silver and just US\$395 per ounce for its gold supply. Gold and silver spot prices have been under pressure this year, but Silver Wheaton still enjoys strong margins.

Production growth

Management has done a good job of securing new output. Silver Wheaton expects 2015 production to be about 20% higher than last year. Output for the first six months was 21 million silver equivalent ounces and full-year 2015 guidance is 43.5 million ounces.

By 2019 that number is expected to reach 51 million ounces.

The part that should get investors excited is the fact that most of the growth is already fully funded. Shareholders just have to sit back and watch the cash roll in.

Risks

Silver Wheaton is in a dispute with the Canada Revenue Agency over taxes connected to the company's international subsidiaries. The case is in its early stages, but Silver Wheaton says its exposure is about US\$200 million.

At this point, the situation is well known and most of the risk is already priced into the stock.

Could the stock double?

The shares have come down so far that any pop in the price of silver will light a fire under the stock. If precious metals move higher through next year, Silver Wheaton could easily see a 100% gain from current levels.

There is no guarantee that will happen, but the long-term outlook is still attractive and the downside risks are probably limited at this point.

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2. Metals and Mining Stocks

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1. Editor's Choice

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Date

2025/08/04

Date Created

2015/09/11

Author

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