



Is Silver Wheaton Corp. Headed Back to \$30?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is starting to regain its shine, and investors who follow the name closely are getting excited about the company's long-term prospects.

Let's take a look at the current situation to see if Silver Wheaton deserves to be in your portfolio right now.

Demand and supply outlook

Silver prices have been on a downward trend since 2011, and investors can be forgiven for deciding to give the sector a wide berth. But developments in the global market suggest the precious metal might be near a bottom.

Unlike gold, which has little value other than its appeal for making jewellery, silver is actually quite useful in a number of industrial applications.

One of those is the production of solar panels. The solar industry has gone through some tough times, but the technology is finally getting to the point where it can be justified based on its economics as well as its green-energy properties. Large industrial solar installations are sprouting up all over the planet, and that trend should continue as costs come down.

Another area of growth is the medical field. Most people are not aware that silver possesses strong antibacterial characteristics, and this makes it a useful weapon in the fight against increasingly stronger bugs. Medical instruments and water purification systems are just two of the current applications where the metal is seeing strong demand.

On the supply side, things could get tight in the next few years. Most of the planet's silver comes from mines that are set up to produce base metals such as copper and zinc. Base metal prices are in a nasty slump, and mining companies can't afford to develop new sites or expand the ones they are currently running.

This could put a pinch on silver supplies just as demand looks like it is ramping up.

Attractive business model

Silver Wheaton isn't a miner; it simply provides upfront cash to mining companies to help them get their projects up and running. In return for the cash injection, Silver Wheaton secures the right to purchase gold and silver by-product at very attractive prices, and then sells the precious metals on the spot market.

How attractive are the deals?

In its Q2 2015 earnings statement, Silver Wheaton reported an average silver cost of US\$4.26 per ounce and an average gold cost of US\$395 per ounce.

This means the company is still seeing strong margins at current market prices.

Production growth

Production from existing streaming deals is expected to be 43.5 million silver equivalent ounces in 2015, a 20% increase over last year. By 2019, output should top 50 million ounces.

The best part for investors is the fact that all of that growth is already paid for, so it is now just a matter of sitting back and waiting for the cash to roll in.

Could Silver Wheaton hit \$30?

If gold and silver prices start to rally in a meaningful way, the stock will surge. At this point, the upside potential probably outweighs any downside risks, including a current tax battle with the CRA.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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

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