



Does Silver Wheaton Corp. Belong in Your Portfolio?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is down more than 20% since the beginning of the year, but a recent rally off the September lows has investors wondering if this is a good time to buy the stock.

Let's take a look at the company's prospects to see if it deserves to be in your portfolio.

Market conditions

Healthy supply conditions and a rising U.S. dollar have driven silver prices lower for the past four years. Looking forward, the dollar is likely to remain strong, but a supply shortage could be in the works.

Why?

Silver has a number of important industrial uses, and demand for the metal could increase significantly.

Most people are aware that silver is a key component in the production of solar panels. The solar industry has gone through some rough times, but things are starting to brighten up.

The technology has advanced to the point where solar panels can be produced at prices that make them attractive investments for large-scale installations. In fact, energy companies around the globe are setting up massive solar projects, and that trend should continue.

Silver also has important antibacterial qualities that make it appealing to the medical industry. Water purification systems and medical instruments are already being manufactured using silver, and that market could grow as the medical world battles stronger bugs.

On the supply side, the pendulum could soon be headed in the other direction.

More than two-thirds of the world's silver is produced as a by-product from mines set up for basemetals such as zinc and copper. Prices for those metals are near multi-year lows, and mining companies have been forced to delay or cancel new projects.

That will have a negative impact on silver supplies in the coming years, which could drive prices much higher.

Growth opportunities

Silver Wheaton has a unique business model. The company gives mining companies upfront cash in return for the rights to purchase gold and silver by-product at very attractive prices.

In the second quarter, Silver Wheaton said its average gold cost was US\$395 per ounce and it paid US\$4.26 per ounce for its silver. That means the company enjoys strong margins, even at the current depressed market prices for the precious metals.

Silver Wheaton expects 2015 output to be 43.5 million silver equivalent ounces, about 20% higher than last year. By 2019, production should be above 50 million silver equivalent ounces. All of this growth is already paid for, so investors just have to sit back and wait for the cash to roll in.

The good news doesn't end there.

CEO Randy Smallwood recently told *Bloomberg* that he is pursuing as much as \$5 billion in new deals.

Should you buy Silver Wheaton?

The company offers investors a great way to play a rally in precious metals prices. If you believe gold and silver prices are headed higher, this might be a good time to pick up the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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