



Silver Wheaton Corp.: Should You Buy Now?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is taking advantage of the difficult times in the precious metal market to lock in new production at very reasonable prices.

Let's take a look at the company to see if this is the time to start a position in the stock.

Business model

Silver Wheaton has a unique business model in that it doesn't actually own any mines. The company simply provides cash to mining companies at the early stages of mine developments in exchange for the rights to buy gold and silver produced at the mine for discounted prices.

Why would a mining company do that?

The mining business is very capital intensive. When times are good, companies can sell debt and issue stock without much trouble, but the capital markets get pretty tough when metals prices are low.

That's the case right now, and miners are looking for alternative sources of cash. Streaming companies like Silver Wheaton help fill that need, and there is no shortage of opportunities to secure new deals.

How much does Silver Wheaton pay?

During the third quarter of 2015, Silver Wheaton's average cash cost was US\$4.58 per silver equivalent ounce.

Production growth

Silver Wheaton just announced a US\$900 million deal for the rights to purchase about a third of the silver produced at the Antamina copper mine owned by **Glencore Plc**.

Silver Wheaton expects 2015 production to be 44.5 million silver equivalent ounces. By 2019, the company says annual production should hit 55 million silver equivalent ounces, including 325,000

ounces of gold.

Silver Wheaton finished Q3 with US\$81 million in cash plus US\$2 billion in credit facilities, so the company has the means to pursue more deals.

Demand and supply outlook

Silver prices remain weak, but that situation could change in the next couple of years. Industrial demand is picking up and supplies are likely to come under pressure. About 70% of the world's silver production comes as a by-product from copper and zinc mines. The market for the base metals is very weak and miners have delayed or shelved plans for new production. As a result, the market might see a supply squeeze, and that could send silver prices soaring.

Risks

Silver Wheaton is in a dispute with the Canada Revenue Agency (CRA) regarding money owed for the 2005-2010 tax years. If Silver Wheaton loses the case, it could be on the hook for about \$350 million in additional taxes plus interest and penalties.

Should you buy?

The CRA issue is well known and already built into the stock price. If you are a gold and silver bull, this is probably a good time to start a position in the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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