



## Should Silver Wheaton Corp. Be a Top Pick?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is down more than 50% over the past five years, but the outlook for the silver market suggests better times could be ahead.

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

### Business model

Silver Wheaton doesn't own or operate mines; it simply provides mining companies with cash to get their projects developed and into production.

In return for the capital infusion, Silver Wheaton secures the rights to purchase the gold or silver produced at the mine for very attractive prices. Most of the facilities are set up to produce base metals such as copper and zinc, but silver and gold are often present.

Why would miners agree to this?

The mining business is capital intensive, and money is tough to come by when the commodity markets are in a slump. Raising cash through a stock sale is very dilutive when share prices are low, and adding debt in a weak environment can put the company at risk.

That's why mining firms turn to streaming companies like Silver Wheaton.

How does Silver Wheaton make money?

The company sells the gold and silver production it receives from its various streaming contracts. During the third quarter, Silver Wheaton's average cash cost was US\$4.58 per silver equivalent ounce. That means the company is still able to earn solid margins in the current environment.

### Production outlook

Silver Wheaton continues to add new deals. The company recently announced a US\$900 million agreement to acquire nearly a third of the silver production at the Antamina copper mine operated by **Glencore Plc**,

and management says it is evaluating several other opportunities.

Silver Wheaton's total production in 2015 is expected to be 44.5 million silver equivalent ounces, up about 20% from last year. By 2019, output should hit 55 million ounces per year.

The company finished Q3 2015 with about \$80 million in cash and US\$2 billion in available credit facilities, so there is ample firepower to sign more deals.

### **Demand and supply outlook**

Precious metals prices have been falling for the past four years, but the bottom could be in sight for the silver market.

Silver is a core component in the production of solar panels. The industry has gone through some tough times, but solar technology has now advanced to the point where the costs make large installations more attractive. As the global move towards renewable energy picks up steam, demand for silver should grow.

On the supply side, things could get tight. About 70% of the planet's silver production comes as a by-product at base-metal mines. With the slump in commodity prices getting worse, mining companies are delaying expansion projects and shelving plans for new mines.

This could set up a potential supply squeeze for silver in the coming years, which would drive prices higher.

### **CRA risk**

Silver Wheaton is in a tax dispute with the Canada Revenue Agency (CRA). If the company loses the case, it could be on the hook for as much as \$350 million in additional taxes plus interest and penalties.

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

The CRA problem is already priced into the stock, so there should be limited downside on that front. If you believe silver and gold prices are near the bottom of their cycles, this might be a good time to add Silver Wheaton to your portfolio.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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### Tags

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