



Why Now Is the Time to Buy Silver Wheaton Corp.

Description

I have never been a huge fan of investing in precious metals, but as a contrarian value investor I am always looking for deep-value investment opportunities. One company that stands out as a deep-value play is precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW).

Its share price has been hammered and it has fallen by 31% over the last year primarily because of the collapse in precious metal prices, but there are a range of tailwinds that should catapult the price of silver and its share price higher.

Now what?

Silver, which generates 60% of Silver Wheaton's revenues, is an industrial metal with a wide range of uses. In fact, industrial demand accounted for 56% of the total amount of silver used in 2014, and this can only increase.

You see, because of silver's conductive qualities, it is an integral ingredient in the manufacture of solar cells.

With a range of nations including the U.S., Canada, Germany, India, Brazil, and China introducing aggressive clean energy targets, the demand for solar panels will grow exponentially.

China alone is targeting installed solar capacity of 200 gigawatts by 2020, six times higher than its current installed capacity. When you consider that to construct sufficient panels to generate one gigawatt of power, about eight million ounces of silver is required.

In order for China to reach its ambitious target, it will need to install enough solar panels to generate 176 gigawatts, and these will require 1.4 billion ounces of silver to manufacture. This is 31% higher than the total physical supply of silver globally in 2014.

More promising for silver is that despite this explosion in demand for its use in solar panels and, to a lesser extent, consumer electronics, global supplies are expected to decrease.

With the price of silver now hovering at about US\$14 per ounce it is close to the cost of production for many primary silver miners, so with ever-thinner margins, many are winding down high-cost operations.

On top of this, the majority of the world's silver is a by-product of gold and base metals mining. Now, with the slump in base metals prices, many of these miners are also shutting down and reducing output. The same phenomena is occurring with gold miners because gold is now at its lowest price in six years.

This is going to create a constrained supply situation over time. An insufficient amount of silver to meet demand will help to buoy its price.

So what?

Each of these factors bodes well for Silver Wheaton, particularly when you consider that its cost structure is far lower than that of miners. For the first nine months of 2015 its cash cost was US\$4.61 per ounce of silver, which is almost half of the cash costs of primary silver miners such as **Pan American Silver Corp.** (TSX:PAA)([NYSE:PAAS](#)).

It is also worth considering that because it doesn't own or operate any mines, Silver Wheaton has a far lower risk profile than any of the primary silver miners, gold miners or base metal miners.

However, this investment is not without risk.

Clearly, Silver Wheaton's fortunes depend on the prices of silver and gold.

It should be noted that Silver Wheaton is locked in a tax dispute with the CRA, which could mean that it is liable for additional taxes and penalties totaling \$353 million.

With signs that a bottom may be in sight for silver and long-term demand expected to exceed supply, now may just be the time to buy Silver Wheaton.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:PAAS (Pan American Silver)
2. TSX:WPM (Wheaton Precious Metals Corp.)

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Author
mattdsmith

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