



Silver Wheaton Corp.: What to Expect in 2016

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is down more than 20% this year, and investors are wondering if things will get better in 2016.

A review of 2015

The stock started the year in good shape, rising almost 20% through the month of January, but the rally stalled with the reversal in gold and silver prices, and the trend has been negative ever since.

The precious metals rout is largely responsible for the stock's dismal performance, but two company-specific issues added some fuel to the fire.

In March, Silver Wheaton issued US\$800 million in a bought-deal equity offering that didn't go over well with the market. The deal was priced at US\$20.55 per share, 3% below the previous day's closing price, but the stock fell below the offer price on the news and some of the underwriters took a hit.

Future deals will likely require a larger discount.

Silver Wheaton issued the stock to pay for the acquisition of an additional 25% of the gold produced at the Salobo copper mine owned by **Vale S.A.**

In July, the stock took another hit when the Canada Revenue Agency (CRA) announced its intention to go after Silver Wheaton for more taxes in the 2005-2010 tax years. If Silver Wheaton loses the case, it could be on the hook for \$350 million in additional taxes plus interest and penalties.

Despite the distractions, management remains focused on acquiring lucrative gold and silver streams at attractive prices. Silver Wheaton recently announced a US\$900 million deal with **Glencore Plc** for about a third of the silver produced at the Antamina copper mine.

A look ahead at 2016

Silver Wheaton expects production to grow from 44.5 million silver equivalent ounces in 2015 to 55

million by 2019. Most of that growth is already funded, so investors simply have to sit back and wait for prices to improve.

The company is evaluating a number of new opportunities, and investors could see additional deals in 2016 as miners are forced to raise capital in a difficult market.

Will prices rise in 2016?

Gold is tough to call, but the silver market could be near its bottom. Most silver is produced as a by-product at copper and zinc mines. With base-metal prices in the dumps, miners are shelving expansion plans, and that is going to reduce the supply of silver at a time when demand is increasing.

Silver has a wide variety of industrial applications, including its role in the production of solar panels. The solar industry has gone through some tough years, but the technology has advanced to the point where solar power is becoming a very attractive option on a cost basis in addition to its appeal as a renewable energy solution. Large industrial solar installations are popping up around the globe, and that trend should continue.

A supply squeeze in the silver market is not expected in 2016, but investors could start to position their portfolios for a rise in prices beyond next year.

Should you buy?

The CRA issue is an overhang, but the risks are mostly priced in to the stock at this point. If you believe gold and silver prices are bottoming out, Silver Wheaton is a good way to play a recovery in the sector.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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