



Silver Wheaton Corp.: Could This Stock Soar in 2016?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) dropped more than 25% last year, and investors are wondering if a rebound is finally in the cards for 2016.

Weak silver prices

Silver is beginning 2016 near a six-year low, and the possibility of further weakness is keeping potential investors on the sidelines.

Why the gloomy outlook?

Much of the price pain has been connected to the rising U.S. dollar, and that trend could continue now that the Fed has begun the process of increasing interest rates.

Some pundits believe the December 2015 rate hike could be a one-and-done scenario for 2016, but most reports suggest at least another two moves of 0.25% each are on the way this year.

All things being equal, higher rates should put more pressure on precious metals prices.

The other side of the coin

The interest rate effect is negative, but lower production and growing demand could begin to offset the strong dollar this year.

About 70% of the planet's primary silver supply comes from mines that are set up to produce base metals such as copper and zinc. The commodities slump has hit miners hard, and new projects are being delayed or even shelved in an effort to reduce capital outlays.

As a result, silver output could start to drop just as demand is expected to ramp up.

According to the Silver Institute, silver's appeal in the jewellery industry is making a comeback. In fact, jewellery demand has risen more than 45% since 2013. That's certainly a bullish trend, but a more exciting scenario is on the horizon in the solar panel industry.

The average solar panel requires about two-thirds of an ounce of silver. With production costs dropping and pressure to reduce carbon emissions rising, the solar industry is poised for a breakout in the coming years.

The decision to go solar can now be made on the economics of the technology, and that is already driving a construction boom of solar installations around the globe. As panels become even cheaper, demand for solar power is going to rise.

Silver supply is still in a surplus position, but the situation could reverse very quickly.

Should you buy Silver Wheaton in 2016?

Management is taking advantage of the difficult market conditions to add new production streams at attractive prices and output is expected to grow from about 44.5 million silver equivalent ounces in 2015 to at least 55 million ounces as early as 2019.

Most of that growth is already funded, so a boost in silver prices should add significant cash to the coffers.

If you are looking for a way to play a rebound in the silver market, Silver Wheaton is a solid pick. A big rally might not happen in 2016, but over the long term Silver Wheaton should do very well.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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