



Is Silver Wheaton Corp. a Buy in the New Year?

Description

It was a rough 2015 for investors of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Since the middle of 2013, investors had been able to comfortably predict the trading pattern of the company. It would rise up to about \$30 a share and then drop to about \$20 before doing it all over again. Many made a lot of money with that understanding.

But in July 2015 the price of Silver Wheaton dropped below its typical trading pattern, and it hasn't been in a good place since.

However, it's a new year and perhaps the company might be a buy now. To make that determination, there are a few factors we have to analyze.

First is the state of commodities. Due to Silver Wheaton's business model, it depends on miners to find it silver. Silver Wheaton is a silver streaming company, which means that it buys silver from miners before the mine has broken ground. That gives the miner upfront capital to get the operation going. The problem is that mining companies are scaling back, particularly with copper and zinc mines, which is where a lot of silver comes from.

If the price of these commodities stay depressed for a long time, many more mines could shut their doors, resulting in a supply pinch. While a cut in supply can also positively impact the price, it can limit how much money there is to be made for Silver Wheaton.

On the other hand, demand is likely to start increasing due to two events impacting the solar industry. The first is the historic Paris climate accord, which was an agreement among nations to wean itself off fossil fuels. While this is bad for the oil and coal industries, it is great news for the solar industry. And that inherently means that it is great for the silver industry.

Silver is required for the creation of photovoltaic cells. It acts as a conductor; when sun particles hit the silicon chip, the negatively charged electrons can be guided. These electrons are then converted in to electricity. According to the Silver Institute, it requires close to three million ounces to create a gigawatt of electricity via solar panels. Therefore, if the world is really going to get serious about solar energy, there is going to be a lot of silver usage.

The other benefit is that the United States decided to extend its tax credits for wind and solar projects. This should mean that more people will buy solar panels because of the credits.

All of this leads me to believe that demand for silver is going to heat up. As that demand increases, I expect to see the price of silver increase, which will send shares of Silver Wheaton higher. Because of its unique business model, it is able to generate significant margins between what it pays the miners and what it is able to sell the silver for. And as the price of silver increases, those margins should increase.

Therefore, while I do believe that things could continue to be rough in the short term, Silver Wheaton might be a good, small holding for those who believe in the growth of solar energy.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Date

2025/08/06

Date Created

2016/01/05

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