



## Will Tesla Motors Inc. Save Silver Wheaton Corp.?

### Description

To drive down costs for lithium-ion batteries, Elon Musk and his well-known company **Tesla Motors Inc.** ([NASDAQ:TSLA](#)) have turned to an old but bold idea: build it and they will come. While the car manufacturer has seen success in more expensive models (think \$100,000 and up), it has yet to find a way to tap in to the mass market for vehicles (think about \$35,000).

The biggest hurdle has been costs. Tesla has had a tough time building a battery with enough range without having to add onerous costs. The firm's new Gigafactory aims to be a game changer.

When its latest mega-factory is completed and running, it should produce more lithium-ion batteries than the entire existing global output. That's quite a feat, but a necessary one if Tesla wants to build scale to lower costs. In all, the company expects that battery costs will fall by roughly 30%, helping it introduce a \$35,000 car to the public at a profit. Elon Musk envisions dozens of these factories once the industry is scaled.

### How does this help Silver Wheaton?

To build scale even faster, Tesla has found a partner to help fill capacity. **SolarCity Corp.** ([NASDAQ:SCTY](#)), where Elon Musk is the chairman, is the largest solar installer in the U.S., controlling nearly half of the market. The company hopes that lower battery costs will allow it to sell cost-effective systems that include both solar panels and back-up batteries for residential use.

In multiple U.S. states, solar power is already the cheapest form of new energy generation. Over the next decade dozens of states should see a massive increase in solar usage. The quicker costs come down, the sooner SolarCity will see huge growth. If Tesla can pull off its Gigafactory, we may just be at the start of a solar revolution that is driven purely by economics.

A critical component of solar panels is a conductive material that helps create an electric current. Silver is one of the most favoured materials. It's reasonable to believe that the higher solar demand goes, the more demand there will be for silver, likely meaning higher prices. **Silver Wheaton Corp.** ([TSX:SLW](#))([NYSE:SLW](#)) is a direct beneficiary of higher silver sales and prices.

Silver Wheaton is referred to as a metals streaming company, meaning that they don't actually mine anything themselves, but rather provide financing in exchange for a cut of future production. It partners with industry leaders such as **Vale SA**, **Glencore PLC**, and **Goldcorp Inc.**

An attractive component of a metals streaming business is that they are not on the hook for cost overruns or delays—the miner is. This is a huge advantage, as the mining industry is typically rife with both. If silver soars, Silver Wheaton could easily double or triple.

### **How high could silver go?**

Silver prices are currently nearing five-year lows. At only \$14 an ounce, prices are significantly lower than their 2011 highs of roughly \$50 an ounce. While demand has grown steadily since 1980 (roughly doubling), supply has grown in step, reducing any potential for pricing increases.

With the collapse in prices, however, many miners are cutting capacity immensely. Meanwhile, demand has held steady and, as discussed, has some major long-term growth opportunities. Over 90% of Silver Wheaton's production deals are with mines in the lowest-cost quartile, so while others will be cutting supply, Silver Wheaton can enjoy the impending benefit of higher prices.

All of the trends discussed, however, are fairly long term. The weekly, monthly, and even annual fluctuations in metals prices can be hard to predict. But if Elon Musk has his way, demand for silver may be monumental over the next decade. Silver Wheaton has positioned its business well to take advantage of this opportunity.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

1. NASDAQ:TSLA (Tesla Inc.)
2. TSX:WPM (Wheaton Precious Metals Corp.)

### **Category**

1. Investing
2. Metals and Mining Stocks

### **Date**

2025/08/06

### **Date Created**

2016/01/06

### **Author**

rvanzo

default watermark