



## Silver Wheaton Corp.: Will Patient Investors Be Rewarded?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is down more than 40% in the past 12 months, and shareholders are wondering if the stock is finally finding a bottom.

Let's take a look at the current situation to see if it's time to sell or start a new position in the stock.

### Rising greenback

Silver has been on the slide for the better part of five years. A rising U.S. dollar is partly to blame, and that trend could continue through 2016, but it isn't guaranteed.

When the Fed raised its target interest rate in December 2015 the market started to price in three or four additional moves in 2016. Higher rates tend to fuel further dollar strength, and that doesn't bode well for silver prices.

Will the rate hikes continue?

The additional rate moves in 2016 are starting to look less likely. Chaotic markets coupled with weak data out of China could force the Fed to ease up on the pace of the rate increases, or even put the process on hold, and that could take a bit of steam out of the greenback's rally.

If the dollar stabilizes or starts to pull back, silver could begin to move higher in the coming months.

### Supply concerns

Oversupply has also been a factor in the price decline, but the market could soon find itself balanced or even tipped to a shortage position.

Silver mines are actually quite rare. In fact, about 70% of primary silver supply comes from mines set up to produce metals such as copper and zinc. The copper market is at multi-year lows, which means miners are shelving plans for project expansions and delaying new developments.

This is going to put a pinch on silver output just as the demand could start to really ramp up.

What's the catalyst?

Silver is a hot item in the jewellery sector with demand up more than 45% since 2013, according to a report from the Silver Institute.

That sounds positive, but the real boost is coming from the industrial side.

A solar panel contains about two-thirds of an ounce of silver. As production costs drop and demand for green energy rises, solar is catching a new wave of popularity, and that trend looks set to continue.

### **Is it time to buy, hold, or sell Silver Wheaton?**

The company is well positioned to benefit from a rebound in silver prices.

Production hit a record 11 million silver equivalent ounces in Q3 2015 and full-year output was expected to be about 44.5 million silver equivalent ounces. By 2019, that number should be closer to 55 million.

Management is taking advantage of the pain in the mining sector to secure new streaming deals at attractive prices, and most of the production growth over the next few years is fully funded.

That's the good news, but there is one negative item to keep in mind.

A dispute with the Canada Revenue Agency could result in extra payments of about \$350 million if Silver Wheaton loses the case. The issue is putting added pressure on the stock, but the potential hit is probably priced in at this point.

I think existing shareholders should hold on and new investors might want to start nibbling on any further weakness in the stock. The market will eventually turn and Silver Wheaton should rally significantly when that happens.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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