



Is Silver Wheaton Corp. Still a Good Investment?

Description

When it comes to selecting mining companies, the underlying tone for much of 2015 and the start of 2016 seems to be the same: stay far away or proceed with extreme caution.

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) does not fall in to the category of being a mining company as it is a streaming company.

Let's take a look at the company and why this is a great long-term investment.

Silver Wheaton is a streamer

Being a streamer means that Silver Wheaton finances a mining company with an upfront payment that the mining company uses to set up operations and begin mining. The streamer in return gets the gold, silver, copper, and zinc output from the mine at a significant discount, which can then be sold for full price elsewhere.

The model can yield some lucrative results. The price a streaming company may pay for gold and silver can typically be in the US\$400 per ounce for gold and US\$4 per ounce for silver, whereas the price of those precious metals on the market hovers closer to \$1,100 and \$14 per ounce.

Even with depressed metal prices, this model ensures that Silver Wheaton turns a significant profit.

Last year the company signed two huge deals—a \$900 million deal with Glencore and another \$900 million deal with Vale. Both of these deals should ensure that there will be plenty of revenue and metal coming in to the company's finances.

The stock is down, but not out

Silver Wheaton is currently down by 10% year-to-date and down by an astonishing 45% over the past 12 months. While there are some points of uncertainty that are priced in to this drop, such as the company's ongoing dispute with the CRA, the fact remains that the entire market is down considerably.

The two large deals that Silver Wheaton signed last year were a massive hit to finances—a hit of approximately \$1.8 billion of the \$2 billion credit line the company has with banks. Towards the end of 2015 the company had approximately \$1.4 billion available in credit, but this was before the second of those \$900 billion deals.

All this means is that 2016 will be a year of paying down that credit bill rather than signing another large deal.

The company's long-term issue with the CRA took another step earlier this month when a notice of appeal with the Tax Court of Canada was filed with respect to the Notices of Reassessment issued by the CRA for the 2005-2010 years.

The appeal effectively pushes the process to the court system rather than keeping it in the realm of the appeals process internal to the CRA.

The CRA also gave notice of an audit over the company's international transactions for the 2011-2013 taxation years. Assuming that the position of the CRA is similar to the reassessment notices already issued for the 2005-2010 years, the audit has the potential to increase the company tax bill by approximately \$450 million.

Despite this, the company remains confident that it fulfilled all obligations with respect to taxes, and the ongoing tax saga with the CRA is already priced in to the stock price.

Silver Wheaton currently trades at \$15.37, which can be considered a huge discount and an opportunity for investors when factoring in the streaming contracts already in place. When the price of silver and gold start to appreciate, as many expect to happen this year, Silver Wheaton's revenues will start to take off, making investors that buy in at this discount extremely happy.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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