



Why Silver Wheaton Corp. Is Beating the Market

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has started the year off considerably better than the market. The stock is already up an impressive 15% year-to-date, and with a new streaming agreement and share buyback program being announced, the stock is surely going to continue to be labeled as one of the best options on the market.

Here's a look at what makes Silver Wheaton the perfect company that investors have been looking for.

New streaming agreement

Silver Wheaton recently announced an agreement with Peru-based Panoro Minerals for an early deposit streaming agreement for the Cotabambas mine. Early deposit agreements differ from typical streaming agreements in that Silver Wheaton is not obligated to pay in cash up front, and as a result is subject to a lower risk.

The agreement calls for Silver Wheaton to be granted 25% of gold and 100% of silver output from the mine up until 90 million silver equivalent ounces has been received. After that point, the streaming levels to Silver Wheaton will drop to 16.67% of gold and 66.67% of silver coming from the mine for the remainder of the life of the mine.

In terms of costs, Silver Wheaton will pay out \$140 million and then \$450 per ounce of gold and \$5.90 per ounce of silver. The agreement also stipulates that should the market price of either metal fall below these levels, then the lower of the rates will apply.

The price that Silver Wheaton is paying out is higher than previous agreements; typically those amounts are about \$4 per ounce of silver and \$400 per ounce for gold. One reason for the increased rate could be a walkaway clause in the agreement, which allows Silver Wheaton to terminate the agreement if the output of the mine proves to be less than expected for the company.

Estimates about how much silver is in the mine vary, but the mine is slated to be operational for approximately 19 years, and in any case the discounted rate at which Silver Wheaton is receiving the metal can be sold at healthy margins.

Share buyback

Silver Wheaton is also planning a buyback initiative of over 20 million shares. The automatic securities purchase plan that the buyback applies to is valid until September 22, 2016.

Share buybacks occur because the company believes the stock is undervalued and wants to boost the stock price and shareholder value. In the case of Silver Wheaton, the company has had its fair share of bad news, particularly with CRA of late, which is likely factored into the cost of the stock. A buyback will boost value, negating some of the impact on the share price the bad news had.

Financing share buybacks is typically done using cash on hand rather than taking on debt that would otherwise be used for growth on other projects. Silver Wheaton is in a unique position; the company does not have significant debt, nor does it have other large projects currently in play, meaning that financing the buyback through debt is an option.

Silver Wheaton is, in my opinion, one of the best options to invest in at the moment.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/01

Date Created

2016/02/09

Author

dafxentiou

default watermark