



Silver Wheaton Corp. Is Soaring: Should You Buy?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has risen 40% in less than a month, and investors are wondering if the rally will continue.

Let's take a look at the situation to see if this is a good time to add Silver Wheaton to your portfolio.

Gold and silver rally

Gold and silver have surprised the markets with solid rallies to start 2016.

This wasn't supposed to happen, but new fears about global economic turmoil are putting pressure on the U.S. dollar, and talk of a possible recession and negative interest rates in the U.S. are driving investors into safe-haven assets.

For the moment, the rally is showing no signs of slowing down, and the longer it goes, the stronger it becomes.

Is Silver Wheaton special?

The broader gold and silver sector is getting a lift right now, but Silver Wheaton holds a unique position in the group.

The company doesn't actually own any mines; it simply provides mining companies with up-front cash to help them move their properties from the development stage to production.

In return for the cash injection, Silver Wheaton is given the right to purchase gold or silver produced at the mine for a very attractive price.

Why would a mining company do this?

Most of the deals are secured with companies that are mining base metals such as copper and zinc. The gold and silver are simply by-products extracted in the process.

Ideally, the miner wouldn't have to turn to Silver Wheaton for funds, but copper and zinc prices have been in the toilet for the better part of five years, and mining companies simply don't have a lot of options right now to secure cash.

The current situation is perfect for Silver Wheaton and its investors. The company is getting the benefit of rising gold and silver prices while still being able to negotiate new streaming deals with the beleaguered base metal miners.

In fact, Silver Wheaton's production stream is expected to hit 55 million silver equivalent ounces by 2019, up from the expected output of 44.5 million ounces in 2015.

The gold rally is largely dependent on global fear to keep it going, but silver could continue to rise in the coming years even if the fear trade subsides.

Why?

The silver market is currently oversupplied, but industrial demand is rising thanks to the boom in solar panel production. At the same time, base metal miners are delaying or shelving expansion plans. About 70% of the primary supply of silver comes as a by-product of base metal production, so the market could see a silver supply squeeze in the next few years.

Should you buy Silver Wheaton?

The long-term outlook for the stock is compelling, and patient investors will probably do well, even if they buy today.

However, I would be inclined to wait for the market to take a breather before starting a new position. Volatility is the name of the game right now, and a pullback could be in the cards given the massive run over the past month.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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