



## Silver Wheaton Corp.: Does the Rally Have Legs?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) surged 50% in the past month, and investors are wondering if the years of pain are finally at an end.

Let's take a look at the current situation to see if the rally is set to continue.

### Low-risk, high-reward model

The recent spike gold and silver prices is lighting a fire under any stock connected to the precious metals sector.

Silver Wheaton is unique in the group because it is a streaming company, not a miner, and that makes it very attractive for investors who want to play a rebound in gold or silver without taking on the various risks faced by the mining companies.

Why?

Silver Wheaton provides mining companies with upfront cash to help move properties from the development stage to production. In return, Silver Wheaton secures the right to buy gold or silver produced at the mine for very attractive prices. The company then sells the precious metals at market rates and pockets the difference. It is a great business because the miners take on all the operational risks, and Silver Wheaton reaps the rewards when markets recover.

The streaming deals are normally negotiated on mines set up to produce base metals, and gold and silver is extracted as by-products.

### Opportunistic buying

Base-metal prices have been in a nasty slump for the past five years and Silver Wheaton has taken advantage of the downturn to secure new production at favourable rates. As a result, output is expected to rise nearly 25% over the next three years.

The best part for investors is that most of this growth is already fully funded. If gold and silver continue to rally, Silver Wheaton's coffers are going to fill up very quickly.

### **Market outlook**

Gold prices are largely driven by moves in the U.S. dollar and demand for a safe haven in times of economic uncertainty. At the moment, things are looking bullish for the yellow metal as concerns about a possible recession in the U.S. are putting pressure on the American dollar, and the market is resetting expectations on interest rate increases by the U.S. Federal Reserve.

Moves in the greenback also impact silver prices, but industrial demand is playing an increasingly important part in the equation.

How?

Silver is a key component in the manufacturing of solar panels and some medical equipment, and demand in these industries is rising at a time when primary production could begin to fall due to lower investments in new base-metal mines. About 70% of the world's silver production comes as a by-product from facilities set up to produce other products, so the current oversupply in the global silver market could disappear in the next few years.

### **Risks**

Silver Wheaton is caught up in a nasty battle with the Canada Revenue Agency (CRA) regarding taxes due on revenue generated by a foreign subsidiary. If Silver Wheaton loses the fight, it could be on the hook for about CAD\$350 million for the 2005-2010 tax years.

In the most recent update, the company said the CRA could decide to go after another US\$310 million for the 2011-2013 tax years. Further notices could come for subsequent years.

### **Should you buy?**

If you are bullish on gold and silver over the long term, Silver Wheaton is a good way to play the market without trying to pick a miner. The CRA issue will continue to be a distraction, but the situation is well known in the market, and most of the risk is probably priced in at this point.

Gold and silver prices remain volatile, and investors could see another meaningful pullback if sentiment changes, so new buyers of the stock should wade in carefully, especially after the recent rally.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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