



Is it Time to Buy Silver Wheaton Corp.?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is up more than 25% in 2016, and investors are wondering if the latest rally is the start of a long-term recovery.

Let's take a look at the streaming company to see if it deserves to be in your portfolio.

Interesting business model

Silver Wheaton is catching a tailwind as gold and silver prices move higher, but the company is very different from the miners.

Silver Wheaton doesn't own any mines; it simply provides mining companies with cash to help them move properties from development to production.

In return, Silver Wheaton secures the right to purchase gold and silver produced at the mines for very reasonable prices. The company then sells the precious metals on the open market and pockets the difference.

Why would a mining company give up its gold and silver?

Most of Silver Wheaton's deals are done on copper or zinc mines that also produce some gold and silver. The miners are willing to sell the gold and silver by-product in exchange for the upfront capital because it means they can finance the mine without taking on too much debt or diluting shareholders through an equity issue.

Silver lining in the commodity crash

The rout in commodity markets over the last five years has been tough on Silver Wheaton's share price, but the company has taken advantage of the tough times to negotiate a number of very attractive deals that position the business for strong returns when gold and silver prices recover.

The company will likely report 2015 production of 44.5 million ounces. That number should hit 55

million ounce by 2019. If precious metals prices remain flat for the next few years, investors are still going to see a nice boost to cash flow because most of the production growth is already fully funded.

Market factors

The silver market is currently oversupplied, but that could change very quickly. Roughly 70% of all primary silver supply comes as a by-product at mines set up to produce base metals, and mining companies have delayed or canceled new mines for copper and zinc at a time when silver demand is rising.

Silver is a core input in the production of solar panels. The solar industry has gone through some rough times, but manufacturing costs are getting down to the point where the technology is economically viable without huge subsidies. Large-scale installations are going up all around the globe, and the battle to reduce greenhouse gases should bode well for future growth.

Risks?

Silver Wheaton is fighting with the Canada Revenue Agency (CRA) over taxes on revenue generated from a foreign subsidiary. If Silver Wheaton loses the case, it could be forced to pay \$350 million for the 2005-2010 tax years and an additional US\$310 million for 2011-2013.

Should you buy?

Silver Wheaton is a great way to play a recovery in gold and silver because it gives investors all of the upside potential on higher prices without taking on any of the risks associated with owning and operating the mines.

The CRA issue is mostly priced in at this point, and any favourable outcome could send the stock higher.

If you think gold and silver have bottomed, Silver Wheaton looks like an attractive long-term bet.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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