



Why Silver Wheaton Corp. Is a Solid Long-Term Investment

Description

The last year has been particularly difficult for precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) as its share price has fallen by 6% over that period.

However, there are a range of tailwinds that are set to propel silver prices higher, making Silver Wheaton one of the best long-term plays on silver.

Let me explain.

Now what?

The secular trend to renewable energy sources is gaining considerable momentum. Countries are implementing renewable energy targets that will see solar-generated electricity become a core part of the global energy mix. At the end of 2015, China quadrupled its solar energy targets; it is aiming to generate 200 gigawatts of electricity from solar power by 2020, almost five times higher than its installed solar capacity at the end of 2015.

This trend is particularly important for Silver Wheaton because silver is a key element in the manufacture of photo voltaic cells that make up solar panels.

You see, silver is the most conductive of all the metals. It takes about three million ounces of silver to manufacture sufficient photo voltaic cells to generate one gigawatt of electricity. China's targeted solar capacity alone would require an additional 468 million ounces of silver. Then there are the ambitious solar targets established by Japan, Germany, and Brazil that will add to that demand.

This increase in demand can only push silver prices higher, particularly when emerging supply constraints are considered.

With silver prices caught in a protracted slump and close to the cost of production for many primary silver miners, many have been eliminating non-economic production in order to preserve their balance sheets and cash flows. One example of this is **Endeavour Silver Corp.** ([TSX:EDV](#))([NYSE:EXK](#)), which has announced that it intends to slash silver production by 25% in 2016.

A number of other miners will certainly follow suit because of the sustained weakness in silver prices.

However, what makes Silver Wheaton an attractive investment is that as a precious metal streamer, it is not engaged in costly and high-risk mining activities.

Instead, it essentially provides financing to miners in exchange for the right to purchase a proportion of a mine's gold and silver production at prices far lower than the market price. This allows it to purchase gold for US\$400 per ounce and silver for US\$4 an ounce, or roughly a third and a quarter of the current market prices, respectively.

As a result, Silver Wheaton's operations are less risky than those of the miners. This means it can remain profitable at prices that are unprofitable for miners.

Nonetheless, it won't all be clear sailing for Silver Wheaton over the short term.

Not only are weak silver prices weighing heavily on its earnings, but it is locked in a battle with the Canada Revenue Agency, which claims that Silver Wheaton has not fully met its tax liabilities. Silver Wheaton could potentially have to pay additional taxes of \$715 million and penalties of \$353 million in the case of an adverse finding.

So what?

While the short-term fundamentals for silver may appear poor, over the long term, the precious metal can only surge in value as growing industrial demand coupled with production cuts lead to a constrained supply situation that will push its price higher.

Meanwhile, the current tax review is really only a short-term hiccup that shouldn't impact Silver Wheaton's long-term growth, even if an adverse finding is made against it. For these reasons, now is the time for investors to consider dipping their toe in the water and adding Silver Wheaton to their portfolios.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:EXK (Endeavour Silver Corp.)
2. TSX:EDV (Endeavour Mining Corporation)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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