



## Contrarian Investors: Does Silver Wheaton Corp. Have More Room to Run?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) has rallied more than 30% in 2016, and investors are wondering if the strong run will continue.

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

### A unique model

Silver Wheaton doesn't own any mines; it simply provides upfront cash to mining companies to help them move their properties from development to production. In return for the cash injection, Silver Wheaton is given the right to purchase gold or silver produced at the site for a very attractive price.

How cheap?

Silver Wheaton's average cash cost for 2015 was US\$4.58 per silver equivalent ounce. Silver trades for about US\$15 per ounce right now.

Why would a mining company do this?

Mining is a capital-intensive business. When times are good, miners are able to raise funds through debt sales and equity offerings, but the market tends to go through cycles, and investors are not always willing to fork over cash when the going gets rough.

The past five years have been particularly difficult.

Many miners are now saddled with huge debt positions and very low stock prices. In order to secure the funds they need to grow, they turn to companies like Silver Wheaton.

Most of Silver Wheaton's supply is contracted on mines set up to produce one of the base metals, such as copper or zinc. These properties also produce some gold and silver by-product, and that is what the mining company sells to Silver Wheaton.

The deal works well for the miner because the company can access important cash without taking on

new debt or diluting shareholders. Silver Wheaton benefits because it secures a supply stream of gold and silver for many years at low prices.

### **Setting up for better times**

The meltdown in metals prices in recent years has been tough on Silver Wheaton's shareholders, but the company has taken advantage of the difficult times to secure strong production growth at very attractive prices. Output in 2015 hit a record 47.7 million silver equivalent ounces, and 2016 production is expected to be 54 million ounces.

With most of the growth fully funded, Silver Wheaton is poised to rake in some big profits if silver and gold prices continue to recover.

### **Risks**

Silver Wheaton is involved in an ongoing dispute with the Canada Revenue Agency (CRA) for taxes payable on income earned by foreign subsidiaries. If Silver Wheaton loses the case, it could be required to pay more than \$380 million for 2005-2010. The company also says 2011-2013 charges could total US\$310 million.

The CRA issue is expected to linger, but most of the risk is probably priced into the stock.

### **Should you buy?**

Silver Wheaton's shares have already bounced 50% off the 12-month low, so most of the easy money has already been made. However, if you are a long-term bull on silver and gold prices, Silver Wheaton is a great way to play the recovery, and further upside is definitely possible on stronger precious metals prices.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **POST TAG**

1. Editor's Choice

### **TICKERS GLOBAL**

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

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### **Date**

2025/08/05  
**Date Created**  
2016/03/29  
**Author**  
aswalker

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