



Silver Wheaton Corp.: Is This the Right Time to Buy?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has chalked up a nice 25% gain in 2016, and investors are wondering if the rally is just beginning.

Let's take a look at the current situation to see if Silver Wheaton deserves to be in your portfolio.

Low-risk metals play

Silver Wheaton is a great way to bet on rising gold and silver prices without having to take on the risk of investing in the mining companies.

Why?

The company does not own any properties; it simply provides miners with upfront cash to help them get their projects into production. In return for the funds, Silver Wheaton secures the right to purchase gold or silver produced at the mine for a very attractive price.

In fact, the company reported an average cash cost of US\$4.58 per silver equivalent ounce in 2015. At the moment, silver trades for about US\$15.75 per ounce.

Most of Silver Wheaton's deals are signed with mining firms that produce base metals such as copper and zinc. The gold or silver is simply a by-product of the mining process.

The miners agree to sell the precious metals stream because the capital injection they receive from Silver Wheaton is more attractive than taking on debt or issuing new equity to develop their properties.

In recent years, Silver Wheaton has been able to negotiate favourable agreements because the base metals miners are struggling with high debt and low stock prices.

Growth and supply outlook

The global silver market is currently oversupplied, but that could change in the coming years.

Silver is popular for jewellery, but it is also a key component in the manufacturing of solar panels. As costs fall, large-scale solar installations are popping up around the planet, and the trend should continue as the technology improves and countries transition to renewable energy.

Roughly 70% of the world's primary silver supply comes as a by-product from base metal mines. Mining companies have delayed or cancelled new developments in recent years due to the crash in commodity prices, and that could result in a silver shortage down the road.

Silver Wheaton's production stream remains strong despite the difficult times in the mining sector. The company reported record output of 47.7 million silver equivalent ounces in 2015 and production is expected to rise to 54 million ounces this year.

The CRA battle

Silver Wheaton is embroiled in a dispute with the Canada Revenue Agency (CRA) over taxes owing on earnings from foreign subsidiaries. The company says it could be on the hook for more than \$380 million for the 2005-2010 tax years and US\$310 million for 2011-2013 if it loses the case.

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

Should you buy?

Silver Wheaton has enjoyed a nice run in recent months, so I wouldn't back up the truck, but the stock remains an attractive pick for investors who believe gold and silver will continue to rally.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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Author
aswalker

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