



## Silver Wheaton Corp.: How High Could This Stock Go?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is surging on the back of rising silver prices, and investors are wondering if the rally has legs.

Let's take a look at the reasons for the big moves and see if Silver Wheaton deserves to be in your portfolio.

### Silver and gold rally

Silver recently hit its highest point in 10 months, driven by strong demand in China and a weaker U.S. dollar. At the same time, gold is extending its powerful start to 2016 amid reduced expectations for rate hikes in the United States and renewed safe-haven demand.

Pundits didn't expect the year to begin with such strong moves in the precious metals, and investors who missed the initial run are starting to move into the sector.

### Silver Wheaton's model

Silver Wheaton isn't a miner; the company simply provides mining companies with upfront cash to help move projects from the development stage to production. In return, Silver Wheaton secures the rights to buy silver or gold output from the mine at a very low price.

Why would a mining company do this?

Most of Silver Wheaton's deals are done on mines set up to produce base metals such as copper and zinc. The properties often have some gold and silver mixed in as well, and it is this by-product that Silver Wheaton buys.

The mining business is capital intensive, and finding cash during difficult times can be challenging and expensive. Miners are currently faced with huge debt loads and low stock prices. As a result, they are turning to Silver Wheaton and its peers to raise funds.

The spread on the transactions can be substantial. In 2015 Silver Wheaton had an average cash cost of US\$4.58 per silver equivalent ounce. Today, silver trades for US\$17 per ounce. That's a pretty sweet margin.

## **Demand and supply**

Silver is a key component in the manufacturing of solar panels. As costs fall and the world shifts towards renewable energy, demand for silver could surge in the coming years. At the moment, there is adequate supply, but the market could find itself in a shortage position in the not-too-distant future.

Why?

Roughly 70% of primary silver supply comes from base metals mines, and the long rout in the commodities market has forced mining companies to delay or scrap new projects. If new output can't keep up with demand growth, the price of silver could be in for a huge rally.

## **Risks**

Silver Wheaton isn't without risks. The company is currently embroiled in a battle with the Canada Revenue Agency (CRA) regarding taxes owed on revenue coming from foreign subsidiaries. If Silver Wheaton loses the case, it could be forced to pay more than \$380 million for the 2005-2010 taxes years. An additional hit of US\$310 million could be levied for 2011-2013.

## **Should you buy?**

Investors will have to keep an eye on the CRA situation, but most of that risk is probably priced into the stock.

The long-term fundamentals look good, and Silver Wheaton is a great way to play a rebound in gold and silver. In 2012 the stock was at \$40, so the upside potential from the current price of \$23 per share is significant if the precious metals continue to rally.

If you like the gold and silver space, it might be worthwhile to add a bit of Silver Wheaton to your portfolio.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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