



Silver Wheaton Corp.: Has the Rally Just Begun?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is up more than 60% since hitting its January low, and investors who missed the rally are wondering if this is a safe time to buy the stock.

Let's see if the recent run could be the start of a broader move higher.

The rally nobody saw coming

Much of the 2016 move can be attributed to reduced expectations on Fed rate hikes.

Pundits were initially looking for four rate increases in 2016. Now, the market is pricing in two hikes or less, and that has taken the steam out of the dollar rally. As a result, gold and silver are becoming more affordable in other currencies, which is providing support for prices.

Silver hit an 11-month high in recent days on strong buying in Asia. Gold is also holding its gains as investors size up the global trend toward negative interest rates.

Silver Wheaton's appeal

Investors like Silver Wheaton as a low-risk way to play rising gold and silver prices. The company doesn't own any mines; it simply provides mining companies with upfront development cash in exchange for the right to purchase gold and silver produced at the mines for very attractive prices.

In 2015 Silver Wheaton reported an average cash cost of US\$4.58 per silver equivalent ounce. Silver currently trades for more than US\$17 per ounce, so you can see why the stock is on fire.

What's the benefit for the mining company?

Most of the streaming deals are negotiated on mines set up to produce base metals such as copper and zinc.

The miners agree to sell off their gold and silver by-product because they can't afford to take on more debt or issue new stock. This has been especially true in recent years, as low commodity prices have

hammered the balance sheets of many companies in the mining sector.

Most of Silver Wheaton's production growth is already fully funded, so investors just have to sit back and hope for rising prices.

The future of silver

More than two-thirds of the world's primary silver supply comes as by-product from base metal mines. The rout in copper and zinc prices has led to a reduction in new mine development, and that could put a squeeze on the silver market in coming years.

If industrial demand ramps up in the solar sector, a silver shortage could develop.

Tax issues

Silver Wheaton doesn't carry mine risks, but it does have an ongoing problem with tax authorities. The Canada Revenue Agency is after Silver Wheaton for taxes owing on revenue generated by foreign subsidiaries. If Silver Wheaton loses the case, it could be on the hook for \$380 million for 2005-2010 and US\$310 million for 2011-2013.

Should you buy?

Where prices go from here is anyone's guess, but if you believe gold and silver are in the early stages of a broad recovery, you want to be a holder of this stock. Remember, Silver Wheaton traded at \$40 in 2012, which is more than 65% above the current price.

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1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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