



Can Investors Expect More From Silver Wheaton Corp.?

Description

It sure has been good to be an investor of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) these past few months. The stock has risen from as low as \$14.99 all the way up to nearly \$25, a 67% increase in the value. More often than not, new investors will see this run-up in price, get excited, and start buying shares without analyzing whether or not the stock is still worthy of consideration.

It's because of scenarios like this that so many investors shun the stock market. They buy high and then, when the stock drops, get frustrated and sell low. So what we have to ask is whether or not Silver Wheaton can keep going from its 67% increase.

The first thing to understand about Silver Wheaton is that it is not actually a mining company. I like to consider it the banker extraordinaire for mining companies. In other words, if a company wants to launch a new mine, it'll get funding from Silver Wheaton. In exchange, Silver Wheaton gets the silver by-product for a seriously reduced price. The reason mining companies opt to do this is because it ensures they have the funding to get the mine up and running.

To get an idea on how profitable being a silver streamer can be, consider that its average cash cost for silver in 2015 was US\$4.58 per ounce. If you subtract that from the spot price, you are left with the difference, which is typically a very significant margin. Silver Wheaton doesn't have to take on much risk, but it still has significant room for profit generation.

But Silver Wheaton is a play on silver increasing in value. The good news for investors is that the increase in price for silver doesn't appear to be slowing down.

Most silver is actually a by-product of mines; in other words, there aren't many companies launching strictly silver mines. With the serious drop in commodities over the past few years, there are fewer mines being launched, which presents an opportunity for there to be a shortage in silver.

According to one analyst, this is the first time since 2011 that silver mine output dropped. And at the same time, fabrication demand is expected to increase through 2016.

One sector that I am particularly bullish on for silver is the solar industry. Unlike electronics that only

need 1.25 grams of silver, a single solar panel needs 20 grams, or two-thirds of an ounce. That means that as solar panel fabrication continues to grow, I expect to see the demand for silver continue to rise.

There's no denying that this rally was completely unpredictable. Silver prices had a six-year low in December, reducing the margins for the company. However, now that the rally has started, there is belief that silver will continue to appreciate in price. Should that occur, I expect Silver Wheaton stock to also appreciate in value. Nothing is for sure, but I am confident that this rally still has legs to run.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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