



## Will Silver Wheaton Corp. Continue to Soar?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is enjoying a great run in 2016, and investors want to know if the stock is destined for new highs.

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

### Unique business model

Silver Wheaton isn't a miner; it simply gives mining companies upfront cash to help them move their projects from the development stage to production. In return for the cash infusion, Silver Wheaton secures the rights to purchase gold and silver produced at the mine for very attractive prices.

In fact, Silver Wheaton's 2015 average silver equivalent cash cost was US\$4.58 per ounce. Today, silver is trading at more than US\$17.50 per ounce.

Why would a mining company do a streaming deal?

Most of Silver Wheaton's contracts are negotiated on mines that are set up to produce base metals such as copper and zinc. During good times, mining companies can issue stock or new debt to fund their development, but the base metals have been in a bear market for most of the past five years, and miners are facing stretched balance sheets.

Adding new debt is not an option for many of the industry's companies, and stock prices are so low that it would be too dilutive to raise funds through the issuance of new shares.

As a result, Silver Wheaton becomes a preferred source of funding.

### Market outlook

Gold and silver are on a tear, and most of the recent gains are attributed to weakness in the U.S. dollar, which has been caused by reduced forecasts for interest rate hikes.

Longer term, the silver market could also get a boost from a supply crunch.

Roughly 70% of primary silver supply comes from base metal mines. The rout in the commodity market has forced mining companies to delay or shelve new copper and zinc projects, and that is going to have an impact on silver output in the coming years.

At the same time, demand could rise significantly. Silver is a key component in the production of solar panels, and much of the world is moving toward renewable energy. As manufacturing costs drop, solar is becoming more justifiable on a cost basis, and that should bode well for silver in the medium term.

Silver Wheaton continues to add new streaming deals, and most of the production growth is already fully funded, so investors just have to sit back and wait for gold and silver prices to continue their recovery.

## **Risks**

Silver Wheaton isn't without risk. The company is currently fighting the Canada Revenue Agency over taxes owed on revenue generated by foreign subsidiaries. If the company loses the case, it could be on the hook for \$380 million for 2005-2010 and US\$310 million for 2011-2013.

## **How high could it go?**

Silver Wheaton traded for \$40 per share in 2012, so there is significant upside if the precious metals continue to rally. The easy money has already been made, but new investors should do well over the longer term.

The stock currently trades at \$25 per share.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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