



Silver Wheaton Corp.: Is This Stock as Good as Gold?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has risen 50% in the past six months, and investors who missed the rally are wondering if more upside is on the way.

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

The streaming model

Silver Wheaton is not a gold and silver producer; it simply provides upfront cash to mining companies to help them get their projects into production. In return, Silver Wheaton secures the rights to purchase gold or silver produced at the mine for a very attractive price.

How attractive?

The company reported an average silver equivalent cash cost of US\$4.44 per ounce in Q1 2016. Silver currently trades for more than US\$17 per ounce.

What's the advantage 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 silver and gold are considered "by-product."

Mining is a capital-intensive business, and sourcing low-cost funding can be difficult when commodity prices are under pressure. With the base metals in a five-year rout, many companies have stressed balance sheets. Borrowing is not an attractive option if debt levels are already high, and low stock prices often mean an equity issue would be too dilutive.

As a result, Silver Wheaton becomes a valuable source of funds.

Gold and silver outlook

The precious metals are enjoying a strong start to 2016, and the upward trend could continue.

What's going on?

Reduced expectations for interest rate hikes in the U.S. are driving down the value of the U.S. dollar. This tends to be bullish for gold, and silver often tags along for the ride.

Safe-haven seekers are also moving into gold as concerns mount around a potential financial meltdown in China. At the same time, the shift by many countries to a negative-rate environment is making gold an appealing alternative to holding cash.

Much of the focus is on gold, but silver could outperform in the coming years.

The commodity downturn has forced mining companies to delay or shelve plans for new development. About 70% of primary silver output comes from base metal mines, so a squeeze on the silver market is a possibility as industrial demand picks up in the solar and medical sectors.

Should you buy?

Silver Wheaton just sold more than 65,000 ounces of gold in a quarter for the first time in the firm's history, and the company just had its second-best quarter ever in terms of production and sales volumes.

Production is on track to hit 54 million silver equivalent ounces in 2016, and the company plans to secure new deals while the environment is still "ripe with opportunities."

If you are a gold and silver bull, Silver Wheaton is an attractive pick.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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