



## Is Silver Wheaton Corp. the Right Mining Stock for Investors?

### Description

It's been pretty nice for investors of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) since the New Year started. The stock has risen over 45%. However, with a solid rally over the past five months, investors are beginning to question whether there is more fuel for this run or if it might fade out.

To make that determination, it's important to understand how this company generates its income. In my title, I asked if it was the right mining stock; however, it doesn't actually mine anything. Instead, Silver Wheaton is known as a streamer. I like to consider them the financiers of the mining space.

Consider that most mined silver is actually a by-product of other types of metals. Therefore, Silver Wheaton actually invests in mines. A new mining company might not be able to get the financing to launch its operation; therefore, Silver Wheaton gives it money up front in exchange for discounted silver. A copper miner only cares about copper; Silver Wheaton only cares about silver and gold.

This gives Silver Wheaton an opportunity to be incredibly profitable with lucrative margins. Consider that it paid US\$4.44 per ounce of silver in the first quarter. It has since been able to sell each ounce of silver for upwards of US\$17 per ounce. Essentially, Silver Wheaton invests, it gets cheap silver, and then it sells it.

But there is a downside to all of this...

Silver Wheaton depends on silver and gold prices to be high. The higher they are, the greater the margin. And its first-quarter earnings left much to be desired. It earned US\$40.98 million in the first quarter compared to US\$49.42 million a year earlier—a 17.1% drop. However, silver prices have been rising over the past couple of months, so it's certainly possible that the second quarter could be stronger.

The question is whether or not silver prices will rise over the long term. Quarter-to-quarter rises and drops are not what investors want. We need to determine if this company will reward investors over the next few years.

That depends a lot on how other commodities do. As I said above, most silver is found only when a

miner is looking for another metal. There isn't significant demand for these commodities because the Chinese economy has slowed down; therefore, it's certainly possible that with fewer of these mines launching, there could come a time when there is a silver crunch, forcing the price much higher and increasing the margins.

On the other hand, the U.S. Fed is considering an increase in interest rates. When the dollar is strong, gold and silver tend to be a little weaker. However, I don't expect the tiny increases to have much of an impact on silver prices.

I'm bullish on the solar industry's impact on silver. Unlike other electronics, a solar panel requires nearly two-thirds of an ounce of silver for every panel. With more and more solar panels being launched, this could push the price of silver higher, especially if supply drops.

While uncertainties remain, I anticipate that this rally should continue so long as it can keep its margins strong through the rest of the year.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## POST TAG

1. Editor's Choice

## TICKERS GLOBAL

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

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