



Silver Wheaton Corp.: Is it Time to Back Up the Truck for This Stock?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is up more than 40% in 2016, and investors who missed the rally are wondering if there is still upside left in the name.

Let's take a look at the current situation to see if the streaming company belongs in your portfolio.

A unique business model

Silver Wheaton is not a mining company; it simply provides miners with upfront capital to help them move their projects from development to production.

In return for the cash infusion, Silver Wheaton secures the long-term or life-of-mine rights to purchase gold or silver output at the mine for a very low price.

How low?

Average silver equivalent cash costs in Q1 2016 were US\$4.44 per ounce. At the moment, silver trades for US\$16.40 per ounce.

Most of the deals are negotiated on mines set up to produce base metals such as copper and zinc, so the streaming deal for the gold or silver by-product makes sense, especially when funding is difficult to find at a reasonable price.

Right now that's the case for many mining companies carrying heavy debt loads and Silver Wheaton is taking advantage of the situation.

Gold and silver outlook

Movements in the U.S. dollar primarily drive gold prices, but the precious metal also sees higher demand when investors start to worry about another financial crisis.

In recent months the greenback has taken a breather on its upward trend as market observers scale back their expectations for rate hikes in the United States. The original forecast was for four rate

moves in 2016. Pundits are now debating whether it will be two or less, and the revised expectation has led to a rally in gold. Lower rates reduce the opportunity cost of owning gold, which doesn't pay you anything to hold it.

While the U.S. is trying to push rates up, many countries are moving toward a negative rate environment. In that scenario, gold begins to look pretty good. Why would you pay the bank to hold your money? You might as well buy gold instead.

The gold rally is hitting the brakes right now as investors wait for the Fed's next move. Earlier fears about a meltdown in China have also subsided or at least been pushed off the radar of the media outlets. Things can change quickly, but gold will likely tread water or even fall back a bit in the near term.

Silver prices tend to piggyback movements in the U.S. dollar, but the metal also has other factors the can move the needle.

The metal is a key component in the manufacturing of solar panels, and the global trend toward clean energy infrastructure should bode well for future demand. At the same time, supplies could get tight.

Why?

About 70% of global silver production comes as a by-product at other mines. With copper and zinc in a multi-year slump, miners have scaled back development of new projects, and that could result in a silver shortage in the coming years.

Should you buy?

The easy money has already been made, but Silver Wheaton looks like a solid long-term hold. I wouldn't rush in right now, but gold and silver bugs might want to consider adding Silver Wheaton to their portfolios on a pullback.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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