



Silver Wheaton Corp.: How High Could This Stock Go?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has nearly doubled off its 12-month low, and investors who missed the rally are wondering how much upside potential remains in the stock.

Let's take a look at the streaming company to see if there is more room to run.

The streaming model

Silver Wheaton is a unique beast in the precious metals sector. The company doesn't actually own any properties; it simply provides miners with upfront capital to help them move their projects from the development stage to production.

In return for the funds, Silver Wheaton secures the rights to buy silver or gold produced at the mine for very reasonable prices.

How reasonable?

Silver Wheaton had Q1 2016 silver equivalent cash costs of US\$4.44 per ounce. Silver is trading for \$17.25 per ounce today.

Most of the deals are negotiated on mines set up to produce copper or zinc. The gold and silver are considered "by-product" in the operation.

The mining companies are willing to do a streaming deal because it is an attractive way to access funds when the balance sheet is stretched or commodity prices are in a slump.

Many base-metal producers are struggling right now, and Silver Wheaton is taking advantage of the situation to add new deals.

Silver and gold markets

Movements in the U.S. dollar largely drive gold and silver prices.

At the moment, gold is catching a nice tailwind as reduced expectations for aggressive rate hikes in the U.S. take some of the wind out of the sail of the U.S. dollar.

In the case of silver, industrial demand is also starting to move the needle. The metal is an important component in the manufacturing of solar panels. As costs fall and the shift to clean energy ramps up, large-scale solar installations are becoming more popular.

At the moment, there is enough silver to supply demand, but 70% of primary production comes from base-metal mines, and the slowdown in new mine development could result in a silver shortage in the coming years.

Risks

Silver Wheaton is embroiled in a nasty battle with the Canada Revenue Agency (CRA) over taxes owed on revenue generated by foreign subsidiaries. The issue is well known, but Silver Wheaton could be forced to pay roughly \$800 million to the CRA if it loses the case.

How high could it go?

Silver Wheaton just hit \$28 per share. If gold and silver prices continue to rise, the stock could take a run at \$40, where it last traded in 2012.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

Category

1. Investing
2. Metals and Mining Stocks

Date

2025/08/03

Date Created

2016/06/09

Author

aswalker

default watermark