



## Silver Wheaton Corp.: Is This Stock Still a Buy?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is up more than 50% in 2016, and investors who missed the rally in the first half of the year are wondering if more upside is on the way.

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

### Gold and silver outlook

Gold and silver have surged this year on reduced expectations for interest rate increases in the United States.

Higher rates tend to push up the value of the U.S. dollar, and a stronger greenback is often negative for gold and silver, which are priced in the American currency. At the end of last year most pundits expected the U.S. Federal Reserve to raise its target rate four times in 2016. Now the market is pricing in two hikes or fewer.

In the case of gold, other factors can drive the price higher. Investors often turn to the metal as a safe haven when financial markets start to look shaky. The Brexit vote is one example of an event that could trigger instability.

Concerns about a meltdown in China are also simmering under the surface and will likely move back on the radar after the U.K. votes on whether or not it wants to stay in the European Union.

Finally, the move by Japan and several European countries to a negative-rate environment is making gold, which pays you nothing, an attractive investment. Why lend the government \$100 when it will only give you \$99 back? You might as well buy gold.

Silver is a bit different in that it has an industrial component to the demand equation. The metal is used in a wide variety of manufacturing applications, including the production of solar panels. As technology improves, costs come down; large-scale solar installations are popping up all around the globe.

Market sentiment can change very quickly, but the current outlook for gold and silver looks pretty good.

### **Silver Wheaton's business model**

Silver Wheaton doesn't own any mines; it simply provides funding to mining companies to help them move their projects from development to production. In return for the cash infusion, Silver Wheaton has the right to buy gold or silver produced at the mine for a reasonable price.

How reasonable?

Silver Wheaton reported Q1 2016 averages silver equivalent cash costs of US\$4.44 per ounce. Silver currently trades for US\$17.30 per ounce.

Management has taken advantage of the commodity slump to negotiate a number of attractive deals with base metal miners who primarily produce copper and zinc, but often have some gold and silver by-product.

Silver Wheaton also bought back more than three million shares at an average price of US\$13.81 per share. That was a smart use of funds considering the stock has recovered to US\$21 per share.

### **Is it time to buy?**

You have to believe that gold and silver are heading higher to own this stock. If you fall in that camp, Silver Wheaton is a good way to play a rally in precious metals without taking on the direct risks associated with owning the miners.

Short-term volatility should be expected, but there is a growing sense in the market that gold and silver have bottomed out. If that's indeed the case, Silver Wheaton still looks attractive.

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

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

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