



Could Silver Wheaton Corp. Keep Going up?

Description

Despite what many others have written, I have not been a fan of mining companies over the past few years. There has been a glut of commodities, and markets have been weaker, pushing the prices of these materials lower. That being said, **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is one stock that I have consistently believed is worth owning.

The primary reason has always been because of the business model. It is the largest silver streamer in the world, which means that it finances mines and, in exchange for that money, it gets cheap silver.

Here's how it works...

Most silver is actually found as a by-product of another kind of mine, such as zinc or copper. Someone wants to launch a new copper mine, but can't get the funds to launch. This new operation can get funding from Silver Wheaton and, in exchange for a low price per ounce of silver, Silver Wheaton funds the operation.

According to the company, in Q1 2016 it had cast costs of US\$4.44 per ounce of silver. The spot price on Friday for an ounce of silver was US\$17.82. That's a significant margin that allows the company to generate significant earnings.

While silver is its main focus, it also acquires gold. In the event that gold is found as a by-product, it pays much less than the spot price for the commodity.

The ultimate question is, Should you buy Silver Wheaton at these prices?

The answer is dependent on whether or not you believe gold and silver are going to go up. Over the past six months silver has appreciated nicely from approximately US\$14 per ounce up to just under US\$18. And gold has gone from approximately US\$1,060 to US\$1,320 in that same time. Can it go higher?

While some are expecting the price to go higher because of the Fed deciding against increasing interest rates, if the Brexit has shown us anything, it's that people are just as willing to flock to the U.S.

dollar for safety as they are to flock to gold.

Therefore, the price of silver has to increase because of actual industrial usage rather than just fear, in my opinion. Fortunately, there is a growing sector that gives silver a lot of room to grow: solar power.

Silver acts as a serious conductive metal that converts electrons from the silicon in a solar panel into an electric current. Many electronics use silver because it's so efficient. A laptop, for example, uses 1.25 grams of silver. Our cell phones use anywhere from 200-300 milligrams. A solar panel, though, uses 20 grams of silver. As solar demand grows, the need for silver will follow.

Then there is the reality that commodities have stayed in a slump. If copper mines can't stay profitable, they'll have to shut down. Since silver is the by-product of a copper mine, when the mines shut down, a shortage in silver could appear. This could have a serious impact on price.

Ultimately, if you want to buy Silver Wheaton, it's because you believe in the underlying asset. My only hesitation with this stock is that it's currently trading only a couple of dollars shy of its high price for the past three years. While I am not an advocate of trying to pick a top or bottom, some patterns are crystal clear. Then again, patterns are meant to be broken, and if silver keeps going higher, it will push past the \$30 mark and go higher. Whether you buy or not is ultimately up to you, but I'm definitely a fan of the stock.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

TICKERS GLOBAL

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