



Why Silver Wheaton Corp. Is High on My Watch List

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) could very well be one of the best performers on the market this year, despite posting less than favourable results in the most recent quarter. The company is currently up year-to-date by 61%.

Here's look at how the company fared, what is in store for the rest of the year, why Silver Wheaton should be a part of your portfolio.

Silver Wheaton's quarterly results and outlook

In the most recent quarter Silver Wheaton posted earnings of US\$40.98 million, representing a year-over-year decline in earnings of 17.1% over the US\$49.42 million reported in the same quarter last year.

Earnings per share for the company came in at US\$0.10 per share compared to the US\$0.13 from the same quarter last year, falling short of what analysts had expected. Even with the drop in earnings, the company did manage to post higher revenues of US\$187.51 for the quarter, a 43.7% increase year over year.

Despite the weak results, Silver Wheaton's business model will ensure that revenues keep flowing in, and the recent surge in precious metals will only push the stock higher.

Silver Wheaton is streamer

Silver Wheaton has a unique business model in that the company is not a traditional miner; rather, it's a streamer. What this means is that the company doesn't actually own any mines or do the mining; it provides upfront financing for mining companies to commence operations.

In return for that upfront injection, Silver Wheaton gets a steep discount on the precious metals coming out of the mines once operations begin. This has traditionally been the case for gold and silver, but more recently streamers have negotiated terms relating to other metals, such as copper and zinc by-products.

That discounted price, which forms part of the streaming deal, can be as low as US\$4.50 per ounce in the case of silver and around US\$400 per ounce for gold. By way of comparison, the current market price of silver is approximately US\$17 per ounce and one ounce of gold hovers just over US\$1,300.

When Silver Wheaton sells the metals at the market rate, the company recaps the initial investment as well as profits.

Precious metals are on the move

Gold and silver have been used as a store of wealth for thousands of years, and for good reason. There's a shortage of supply, high demand, and a steadily increasing price. This held true up until 2011 when the price of gold dropped from nearly US\$1,900 per ounce down to the sub-US\$1,100 level late last year.

Since then the prices of precious metals have been on the rise, and gold producers and streamers have been taken along for the ride. Gold has appreciated over 20% in the past six months and silver has increased significantly as well. A change in overall market sentiment is partially to blame for this increase as skeptical investors opt to move wealth to metals when uncertainty arises.

The recent "Leave" result from the Brexit referendum in the United Kingdom was the most recent proof of this. With the United Kingdom now set to leave the European Union, markets across the world were jittery on the news; some markets have shown double-digit declines, leading many to return to the gold market, which has soared.

Silver Wheaton remains, in my opinion, a great stock to have in your portfolio, particularly for those investors looking for long-term growth. The recent strength in metals will provide a boost to Silver Wheaton, and even if the current rally in metals does not last, the company has a number of streaming agreements in place to ensure that revenues continue to flow in.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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