



Silver Wheaton Corp.: Is \$40 the Next Stop?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) just broke through the \$30 mark, and investors who missed the big rally are wondering how much upside is left in the name.

Let's take a look at the current situation to see if the streaming company deserves to be on your buy list.

The streaming model

Silver Wheaton doesn't produce gold or silver; it simply supplies mining companies with upfront cash to help them move their projects from development to production.

In return for the funds Silver Wheaton is given the right to purchase gold or silver produced at the mine for a very attractive price.

How attractive?

In the Q1 2016 earnings report Silver Wheaton said its average silver equivalent cash cost came in at US\$4.44 per ounce.

At the time of writing, silver is trading at US\$18.50 per ounce.

Most of the deals are negotiated on mines set up to produce base metals, so the gold and silver that comes out of the mine is considered a bonus, or in industry terms, a by-product.

Mining companies are willing to set up streaming deals because the funds are an attractive alternative to financing expansion by adding debt or diluting shareholders by selling new shares.

The past few years have been difficult for the base-metals producers, and many of the companies are faced with stretched balance sheets and very low stock prices. As a result, Silver Wheaton has been able to negotiate several long-term deals at favourable prices.

Gold and silver demand

Gold continues to extend its 2016 rally. The party started when investors clued in that the Fed wasn't going to hike interest rates as fast as previously expected. Higher rates in the U.S. tend to push up the value of the American dollar against a basket of foreign currencies, and that tends to be negative for the price of gold.

With current expectations at two rate hikes or less in 2016, gold is finding support.

The surprise Brexit vote has also provided a nice boost as investors around the world look for a safe place to park their cash. The process of leaving the E.U. is going to be a drawn-out affair, and financial markets could remain volatile for some time.

Silver is a different beast in that the price is partly driven by industrial demand. The metal is a core component in the manufacturing of products such as solar panels, and that business is poised to grow as technology improves and countries shift toward renewable sources of energy.

Could the stock hit \$40?

Everything depends on gold and silver prices.

At the moment, the upward trend looks like it has some legs, and another shock to the financial markets could easily move this stock much higher.

The quick money has already been made, but gold and silver bulls should consider holding Silver Wheaton as a way to play the recovery.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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