



Silver Wheaton Corp.: Time to Buy or Sell?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has doubled off the January lows, and investors want to know if the rally could continue.

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

What's a streaming company?

Silver Wheaton doesn't actually own any mines; it simply provides mining companies with upfront cash to help them move their properties from the development stage to production. In return, Silver Wheaton is given the rights to purchase gold or silver produced at the mine for a very reasonable price.

How reasonable?

The company reported its Q1 2016 silver equivalent cash cost as US\$4.44 per ounce. Silver currently trades for US\$20.30 per ounce, so the margins are pretty sweet.

The streaming deals are generally negotiated on mines set up to produce base metals, so the gold and silver are by-products in the process.

Ideally, mining companies would prefer to keep their gold and silver by-product, but the commodity slump in recent years has made it difficult for miners to find money at an attractive price. Balance sheets are loaded with debt and stock prices are so low that an equity issue would be too dilutive.

As a result, Silver Wheaton has been able to negotiate very good deals, and investors are reaping the benefits.

Silver outlook

Silver has been on a roll in recent weeks—far outpacing the rise in gold prices. There are a number of reasons why silver is suddenly getting so much attention.

First, the metal is simply catching up. The number of ounces of silver required to buy and ounce of gold—or the “spread”—has traded above historical averages in recent months.

Second, silver is an important component in the production of solar panels. As the world moves toward renewable energy solutions, large solar installations are popping up all over the world.

Finally, supply is becoming a concern. About 70% of primary silver supply comes from base metal mines. The commodity rout has forced mining companies to close facilities and scrap expansion plans. As a result, silver output could drop in the coming years just as demand is rising.

Should you buy?

Silver Wheaton has enjoyed a big run. Could it go higher? Certainly, but a near-term pullback is probably in the cards. If you bought the stock earlier this year, it might be a good idea to lock in some profits.

Having said that, the long-term opportunity is still attractive for this name. If you are a gold and silver bull, any meaningful dip in the stock should be viewed as a chance to start a new position.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Author

aswalker

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