Why Silver Wheaton Corp. Remains a Top Pick for 2016

Description

Even after the alarming market slump in the wake of the Brexit, markets have continued their relentless march upwards with the **S&P 500 Index** hitting record highs in recent days. Along with an ever-widening array of economic and political fissures globally, this indicates that the end of the latest bull market could very well be in sight with a long-awaited correction on its way.

One of the best ways to hedge against this risk is with precious metals. Both gold and silver are widely recognized as safe-haven assets. Despite gold and silver being up by 22% and 38%, respectively, over the last year, there are signs that higher precious metal prices are here to stay, making now the time for investors to add **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) to their portfolios.

Now what?

Silver Wheaton's share price has popped by an impressive 104% over the last year, but there are signs that it will continue to appreciate with fears of further economic uncertainty and geopolitical instability driving a flight to safe-haven assets such as gold.

Silver Wheaton also stands to benefit from its moves in recent years to diversify its reserves away from being concentrated on silver to also include gold, allowing it to benefit from both higher gold and silver prices.

It is worth considering that, like all precious metal streamers, it offers investors the same levered exposure to gold and silver prices that miners offer, but with substantially less risk. This is because Silver Wheaton doesn't conduct mining activities but instead provides financing to miners in exchange for the rights to receive a royalty or a portion of the precious metals produced at a price that is far lower than the market.

As a result, it not only represents a lower-risk investment in precious metals, but it also has a far lower cost structure. Silver Wheaton reported cash costs of US$4.44 per ounce of silver produced for the first quarter 2016, which is well below that reported by primary silver miners such as **Pan American Silver Corp.,** which expects cash costs of US$9.45 per ounce for 2016.

Such low cash costs will translate into a considerable increase in profitability for Silver Wheaton when silver prices, as we have just witnessed, rise significantly.

The only major risk is the investigation currently underway by the Canada Revenue Agency (CRA), which claims that Silver Wheaton understated its income. The CRA is seeking additional taxes and penalties totaling $353 million. Silver Wheaton has vowed to defend the matter, and it is unclear if an adverse finding will be made. Even if there were an adverse finding, it would have little to no long-term impact on Silver Wheaton; it generated cash flow in excess of US$119 million for the first quarter 2016 and had US$87 million in cash at the end of that quarter.

So what?

When looking for a defensive hedge that is well positioned to benefit from sharply higher precious metal prices it is hard to pass up Silver Wheaton. Not only does its diversification into gold in recent years allow it to benefit from higher gold prices, but it is able to do so in a lower-risk fashion than precious metals miners. And Silver Wheaton pays a regular dividend yielding just under 1%.

The company offers one key advantage over investing in gold or silver bullion: the ability to receive a regular income stream from an asset class that is often derided for not producing any income.

CATEGORY

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

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