



## Silver Wheaton Corp.: Could This Stock Hit \$50?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is up 25% in the past month and has risen 120% in 2016.

With the stock now trading at \$38 per share, investors are wondering if the big rally will continue.

Let's take a look at the current situation to see if there might be more fuel in the tank.

### Silver outlook

Silver has really picked up a tailwind in recent weeks, outpacing gold by a huge margin. Some people are looking at the price charts in awe, but keen followers of the precious metals are not surprised.

Why?

The number of ounces of silver it takes to buy gold dipped below the historical averages earlier this year. Investors knew the "spread" would eventually return to more normal levels, and it appears that is finally happening.

Demand and supply factors might also be at play. Silver has a number of industrial uses, including its role in the manufacturing of solar panels. The solar industry has gone through its fair share of ups and downs, but the technology has advanced to the point where installations are becoming very economical, even without heavy government aid.

As the world continues to shift toward renewable energy solutions, solar should continue to grow, and that bodes well for silver demand.

On the supply side, there are some concerns that production might not keep up with demand in the coming years.

Roughly 70% of primary silver supply comes from base metal mines. The rout in copper and zinc prices in recent years has forced mining companies to shelve plans for mine expansions and new

developments. Base metal prices are beginning to recover, but it can take several years to get new production online, and that could mean a supply pinch for silver if new production lags demand growth.

### **Silver Wheaton's appeal**

Silver Wheaton isn't a miner; it simply provides cash to mining companies to help them get their projects up and running. In return, Silver Wheaton is given the right to buy gold or silver produced at the mine for a very reasonable price.

How reasonable?

The company's Q1 2016 average silver equivalent cash cost was US\$4.44 per ounce. Silver currently trades for more than US\$20 per ounce.

Mining companies are willing to enter these contracts because Silver Wheaton is a source of cash that doesn't load up the balance sheet with debt or dilute shareholders through a stock sale. In recent years, this has been very helpful because most base metal miners have struggled with high debt and low commodity prices.

Mining is a risky business and things often go wrong. Silver Wheaton offers investors a great way to play the gold and silver rally without taking on the direct operational risks faced by mining companies.

### **Could the rally continue?**

Everything depends on the price of silver and gold.

The U.S. Fed is now expected to hike rates just once at most in 2016, and that has taken the wind out of the sails of the rally in the greenback. A lower U.S. dollar tends to be positive for gold and silver.

Moving forward, there are serious concerns about the trend toward negative interest rates around the world. That could provide further support for the precious metals if the movement picks up steam.

Other factors to consider include fears about a debt bubble in China and the medium-term impact of the Brexit, both of which could push more money into safe-haven assets such as gold and silver.

Momentum can change at the drop of a hat, but the current outlook should be favourable for higher prices, and this stock could easily hit \$50 by the end of next year if the gold and silver rally continues.

Nonetheless, the rally has been rather impressive in recent weeks. If you bought Silver Wheaton below \$20 per share, it would be prudent to lock in some profits just in case the tide suddenly turns.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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