



## 1 More Reason to Buy Silver Wheaton Corp.

### Description

It has been a great year for investors in precious metal streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Not only has its stock rallied by a massive 121% since the start of 2016, but the company's diversification into gold has given its bottom line a healthy boost. Now Silver Wheaton has completed a surprisingly solid deal that leaves it favourably positioned to take further advantage of firm gold prices, reinforcing why it is a [solid play](#) on precious metals.

### Now what?

Even when silver miners were savagely cutting costs, shuttering uneconomic production and reducing spending on exploration and development because of the bear market in silver, Silver Wheaton continued to grow its portfolio of royalty and streaming contracts.

One of the key deals it made back in early 2015 was to boost its interest in **Vale SA's** Brazilian Salobo mine by 25% for US\$900 million, giving it a total of 50% of that mine's gold production for the life of the mine. This deal was criticized by a number of analysts; many felt that it was a poor allocation of capital, especially with gold stuck in a long-term bear market, and that it was a distracting move away from its focus on silver.

Nonetheless, this purchase significantly boosted Silver Wheaton's 2015 production with its gold output rising markedly. It also had the advantage of further diversifying its asset base, leaving it well positioned to take advantage of a recovery in gold.

Now Silver Wheaton has made a further deal with Vale, acquiring an additional 25% of the Salobo mine's gold output in an US\$800 million purchase that gives it a total of three-quarters of the mine's gold production for the life of the mine. This has boosted Silver Wheaton's gold reserves to 3.2 million ounces and should grow its 2016 production to 305,000 ounces of gold, 33% higher than it was in 2015.

More importantly, Salobo has an estimated mine life of 50 years, and Silver Wheaton expects its share of gold production from the mine to grow over the next five years, boosting its total annual gold production to 330,000 ounces.

Furthermore, this latest deal is on far more favourable terms than the previous Salobo acquisition, with the upfront payment being US\$100 million less than it was previously.

The end result is that, after including its previous 50% interest, Silver Wheaton will be obtaining 225,000 ounces of gold annually from Salobo at a cost of US\$400 an ounce. This is in an operating environment where gold is trading at over US\$1,300 per ounce, highlighting just how profitable Silver Wheaton's diversification into gold has been. The end result will most certainly be a healthy bump in its bottom line, ultimately leading to a higher share price.

### **So what?**

This is a solid transaction for Silver Wheaton because it significantly boosts its gold reserves and production, allowing the company to take full advantage of higher gold prices. It also reduces Silver Wheaton's dependence on silver, which has been extremely volatile since the end of the 2011 precious metals bull market.

Nevertheless, it is not without risk given the difficulties that Vale has been facing since the Samarco Dam disaster. Then there are the hazards that are present when investing in Brazil, a country that is caught in its deepest economic slump since the start of the 20th century and finds itself engulfed in an ever-widening corruption scandal.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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