



Silver Wheaton Corp.: Should You Buy This Stock Today?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) just topped the \$40-per-share mark on the TSX for the first time in four years, and investors who missed the rally are wondering if the streaming company has more room to run.

Let's take a look at the current situation to see if this name should be in your portfolio.

Earnings

Silver Wheaton just reported Q2 2016 net earnings of US\$60 million, up 12% compared with the same quarter last year.

Revenues jumped 29% to US\$212 million on the back of higher output and better prices.

Silver production came in at 7.6 million ounces in Q2, up 5% over last year. Gold production increased 40% to 70,200 ounces. The average realized sale price for silver was US\$17.18 per ounce, up 5% from Q2 2015. Silver Wheaton received US\$1,267 per ounce of gold, a 6% increase over the same quarter last year.

Cash costs

Silver Wheaton isn't a mining company; it simply provides miners with upfront cash to help them move their projects from the development stage to production.

In return for the funds, Silver Wheaton secures the rights to buy silver or gold produced at the mine for very attractive prices.

How attractive?

The company reported a Q2 2016 average silver cash cost of US\$4.46 per ounce sold. The average gold cash cost was US\$401.

Silver currently trades at US\$20 per ounce and gold sells for US\$1,360 per ounce, so the margins are

pretty sweet.

Why would a mining company agree to this?

The slump in commodity prices in recent years has put mining companies in a tough spot with many struggling to pay down debt. Most of the streaming deals are negotiated on projects set up to produce base metals such as zinc or copper. The gold and silver production is normally a “by-product” in the process.

Silver Wheaton is seen as a source of funding that doesn't involve adding debt or diluting shareholders. The deals work well for both parties; miners get much-needed cash and Silver Wheaton adds low-cost production growth.

Resource build

Silver Wheaton just announced an agreement to acquire an additional 25% of the life-of-mine gold production from Vale's Salobo copper mine. This boosts Silver Wheaton's portion of the gold production at the facility to 75%.

Salobo is expected to reach its full production capacity by the end of 2016.

Should you buy?

Everything depends on your outlook for gold and silver prices.

If you think the rally is just getting started, Silver Wheaton should be a top consideration for your portfolio as any additional strength in the precious metals will push the stock higher.

However, Silver Wheaton is already up 130% in 2016 and has risen 65% in just the past three months. That's a big move in a narrow time frame, so new investors have to be careful jumping in right now.

I would be inclined to wait for a pullback before committing new money to the stock, and investors who bought at much lower prices might want to lock in some profits.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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