Is Silver Wheaton Corp. or Kinross Gold Corporation a Better Bet Today?

Description

Gold and silver are treading water after a huge run, and investors who missed the rally are wondering which names in the sector might offer the best shot at some extended upside.

Let's take a look at **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) and **Kinross Gold Corporation** (TSX:K)(NYSE:KGC) to see if one is more attractive today.

Silver Wheaton

Silver Wheaton doesn't actually own any mines; it simply provides mining companies with upfront cash to help them move their projects from development to production.

In return, Silver Wheaton secures long-term or life-of-mine rights to purchases gold or silver produced at the mine for a very attractive price.

How attractive?

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

When you consider the fact that silver currently trades for close to US$20 per ounce and gold is hovering around the US$1,350 mark, the margins are pretty good.

Why would a mining company agree to such terms?

Most of the contracts are negotiated on mines set up to produce base metals such as copper and zinc. The gold and silver output is simply by-product rather than the primary commodity.

The base metals have been in a nasty slump for the past five years and many of the mining companies are carrying too much debt. As a result, getting funds from Silver Wheaton as part of a streaming deal enables them to move ahead on projects that might not be possible using other financing channels.

Kinross

Kinross has battled hard to dig itself out of an ugly debt trap and finally has its balance sheet in order.

What happened?

The problems started in 2010 when Kinross spent $7 billion to acquire Red Back Mining. The deal was supposed to launch Kinross into the big leagues, but it almost killed the company instead.

Gold prices topped out not long after the deal was closed, and the Red Back assets have never lived up to expectations.

That might change in the next couple of years.

Kinross is planning to invest an additional US$300 million in the Tasiast mine located in Mauritania. Tasiast was supposed to be the crown jewel in the Red Back portfolio, but the facility has been a disappointment.

The new expansion will boost throughput by 50% and should increase production by 90%. If things work out as planned, all-in sustaining costs (AISC) will come down significantly and Tasiast could finally start to live up to its potential.

Kinross expects 2016 production to be 2.7-2.9 million ounces at AISC of US$890-990 per ounce. That cost structure is higher than the larger peers, such as **Barrick**, so management still has some work to do.

Which should you buy?

Both stocks have enjoyed stellar gains this year, so I wouldn’t back up the truck right now for either one.

However, if you want to have exposure to the sector, I would make Silver Wheaton the first pick. The stock gives you a way to play both metals and doesn’t come with the direct operational risks faced by Kinross.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:KGC (Kinross Gold Corporation)
2. TSX:K (Kinross Gold Corporation)
3. TSX:WPM (Wheaton Precious Metals Corp.)

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