



## Silver Wheaton Corp.: Is the Pullback an Opportunity to Buy?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is in retreat after a stellar run in recent months, and investors are wondering if this is the right time to own the stock.

Let's take a look at the streaming company to see if it should be in your portfolio.

### Financials

Silver Wheaton generated solid results for the second quarter.

Net earnings came in at US\$60 million, up 12% compared with the same period last year. Revenue rose 29%, supported by stronger production and higher prices.

Silver output in Q2 increased 5% to 7.6 million ounces. Gold production jumped 40% to 70,200 ounces.

The company received an average realized sale price of US\$17.18 per ounce for its silver and US\$1,267 per ounce of gold. That translates into gains of 5% and 6%, respectively, when compared with Q2 2015.

Cash costs were just US\$4.46 per ounce for silver and US\$401 per ounce for gold in Q2, so Silver Wheaton enjoyed some decent margins.

### Growth

Silver Wheaton isn't a miner; it simply provides mining companies with cash to help them move their projects from development to production. In return, Silver Wheaton is given long-term or life-of-mine rights to purchase gold or silver produced at favourable prices.

In order to keep the revenue stream going, Silver Wheaton has to constantly look for new opportunities.

Fortunately, the rout in the base metals markets has made the process easier as mining companies are struggling with heavy debt loads and weak stock prices.

The latest deal is an agreement for an additional 25% of the gold output at Vale's Salobo copper mine. The site has proven to be a strong asset, and the mine still hasn't hit full production. Silver Wheaton now has the rights on 75% of the gold produced at the mine.

## Market outlook

Gold and silver prices have been on fire this year, but the market appears to be taking a breather as investors try to decide where things are headed.

Gold has risen on reduced expectations for rate hikes in the United States and has found support around the world as other countries move toward negative rates.

The beef against gold is that the metal doesn't pay you anything. As a result, when rates rise in the U.S., gold normally falls because the opportunity cost of holding the metal increases.

Japan and some countries in Europe are now actually in a negative rate situation. In that case, gold is looking pretty good. Why pay the government or the bank to hold your money? You might as well own gold.

For the moment, the next move in gold will likely be determined by U.S. economic data. At this point it is difficult to say which way things will go in the near term.

Silver normally moves in tandem with gold, but it can also be impacted by industrial demand. Secondary supplies are keeping the market in balance, but there is a risk of a shortage in the coming years if demand surges and new primary output doesn't come online fast enough.

## Should you buy?

If you are a long-term gold and silver bull, Silver Wheaton is a great way to get exposure to rising prices.

However, the stock has enjoyed a fantastic run, and the recent weakness in the market might continue in the near term. As such, I would be more inclined to take profits right now than start a new position.

## CATEGORY

1. Investing
2. Metals and Mining Stocks

## TICKERS GLOBAL

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

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