



Why Silver Wheaton Corp. Is Such a Great Opportunity

Description

The precious metals industry is the best-performing sector of the economy this year. With gold prices up by over 20% and silver up by at least that much as well, precious metal producers have seen stock prices surge considerably.

One such company is **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW). Silver Wheaton isn't a gold producer—it's a streamer.

Precious metal streaming

Precious metal streamers have a different business model than pure-play producers, and this model can provide extremely lucrative revenues for the company.

Streamers, unlike producers, don't actually own the mines that contain precious metals. Streamers provide an upfront investment to producers, who in turn use those funds to set up the necessary infrastructure around the mine and begin operations.

For their investment, streamers are granted a certain allocation of the precious metals retrieved from the mine for a fairly significant discount, which can then be sold for market rates. This effectively creates a low-risk, high-margin model for Silver Wheaton that can be incredibly lucrative.

Exactly how much that discount is depends on the streaming agreement, but generally gold can be purchased in the region of US\$400 per ounce and silver for approximately US\$4 per ounce. By way of comparison, the market rate for gold and silver is currently at US\$1,327 and US\$19 per ounce, respectively.

Why Silver Wheaton is a great opportunity

Silver Wheaton, like most other companies linked to the precious metals industry, has had a stellar year. Year-to-date, the stock price is up by over 100%, leading many to suggest that the stock has peaked, at least for now.

This couldn't be further from the truth.

Silver Wheaton has increased annual revenue by over 400% over the past decade. Keep in mind, this period includes the infamous gold run-up to US\$1,900 per ounce, the collapse to sub-US\$1,100, and return to over US\$1,300 per ounce.

In the most recent quarter, Silver Wheaton posted earnings of US\$0.14 per share on revenues of US\$212.35 million. Even better, revenues and production are expected to keep rising this year and next with forecasts calling for earnings increases of over 20% annually for the next few years.

In terms of debt, Silver Wheaton has just US\$706 million, which is much lower than other companies in the precious metals industry.

Finally, on a production standpoint, Silver Wheaton is looking at a forecast of 54 million ounces of silver. Should Silver Wheaton keep to this forecast, production could finish up 25% year over year. When you factor in the increase in silver and gold prices over the past year (which are likely to continue, albeit at a slower pace), the growth prospects for Silver Wheaton are immense.

In my opinion, Silver Wheaton is still a great opportunity for those investors looking for long-term growth.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

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

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Date

2025/08/03

Date Created

2016/08/26

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