



Silver Wheaton Corp. Just Tripled: Buy More or Sell?

Description

From its lows set earlier this year, **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) stock has more than tripled. Shares have retreated by a few bucks over the last few weeks, but there's no doubt that investors have boosted their expectations for future returns.

As with any company that experiences a sharp rise in share price, investors must now ask one question: Is it time to buy more or sell?

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The massive increase in the share price was justified

On nearly every fundamental measure, Silver Wheaton has improved by a sizable amount.

The company delivered results for the second quarter that handily beat expectations with revenues increasing nearly 30% due to an 18% rise in production and higher gold and silver prices. More importantly, it was able to raise its long-term production forecast for gold. For 2016 alone, Silver Wheaton anticipates gold production of 305,000 ounces, trouncing its previous expectation of 265,000 ounces.

Selling prices are also rebounding. Year to date the list price of gold has gained almost 26%—more than \$280 an ounce. In the first half of 2016, Silver Wheaton's average realized selling price for gold was US\$1,223 an ounce. So far, in the second half of this year the average price of gold has been above US\$1,300 an ounce.

The future of gold prices may continue to strengthen. **UBS Group AG** now sees gold hitting US\$1,400 before the end of the year. **Credit Suisse Group AG** and **Bank of America Corp.** have it going even higher to US\$1,500 by 2017. **Royal Bank of Canada** now sees gold rising to US\$1,500 in 2017 compared to its previous forecast of US\$1,300.

Don't forget about silver

Silver is also becoming a key profit segment for Silver Wheaton. In the first six months of 2016 the company produced 15.1 million ounces of silver—up over 10% from 2015 levels. Sales of silver increased by a whopping 31%. Cash costs of production, meanwhile, stayed about flat.

Rising production and sales with flat costs is a sure way to increase profits. During the first six months of 2016 the company generated \$170 million in operating cash flows from its silver segment. That's a \$30 million increase from the year before.

Like gold, expectations for silver are also gaining momentum. This year, Silver Wheaton expects silver production to hit 32 million ounces. Because it has already produced 15 million ounces in the first half of 2016, production will likely grow to 17 million ounces in the second half.

So far, in the second half of the year silver prices have averaged almost US\$20 an ounce. Because Silver Wheaton had a realized price of around US\$16 an ounce in the first six months of 2016, realized selling prices will likely have another increase.

The valuation isn't too demanding

There's no doubt that things are improving on a fundamental level for Silver Wheaton. Conditions are also likely to continue improving. Currently, shares trade at roughly 2.8 times book value—about the same level that they did in January 2015 when both gold and silver prices were lower.

So, despite the run-up, Silver Wheaton shares don't appear to be that expensive in comparison with its history. That means that both gold and silver prices are higher, production is rising, and the valuation isn't historically demanding. These are major reasons why investors should continue accumulating shares despite the sizable run-up.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. Editor's Choice

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

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rvanzo

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