



Is Silver Wheaton Corp. Still a Good Buy?

Description

Since nearly tripling in price, shares of **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) have pulled back, likely because investors wanted to take some of their hard-earned profits. Looking at the stock now, investors are left wondering whether they should buy shares again or continue to wait on the sidelines.

Silver Wheaton is in the precious metals streaming business, which means it acts as the financier for mining companies. For example, let's say that Fool wanted to launch a new copper mine, but it didn't have the resources because launching a new mine is expensive. Silver Wheaton would fund the mine's operation up front and then get the silver at reduced costs. Fool gets an awesome copper mine and Silver Wheaton gets cheap silver. It's mutually beneficial.

And when you consider that most silver is actually a by-product of other types of mines, it's easy to see why Silver Wheaton has had such tremendous success building its business over the years.

What we have to determine, though, is if the future is going to be just as significant as the past.

Based on its second-quarter results, the company is building steam and getting much stronger. It had \$212 million in revenue—up 29% from the same period last year. It also had attributable production of 7.6 million ounces of silver and 70,200 ounces of gold—up from 7.2 million ounces and 50,100 ounces, respectively.

Finally, add that to the average sale price of silver being up 5% to \$17.18 per ounce and gold being up 6% to \$1,267, and it's easy to see why the company is doing so well. When you increase production and sale price per ounce, you're going to make money.

But none of that matters if the most important number doesn't stay low: the average cash cost per ounce. This is the amount of money it costs Silver Wheaton to get an ounce of silver and gold. If it sold an ounce of silver for \$17.18, anything lower than that in cost is profit. In the second quarter its average cash cost was \$4.46. And for gold its average cash cost was \$401. Silver Wheaton's margins are very lucrative.

But like I said ... the past is the past. What about the future?

On the gold front, multiple analysts expect there will be a bull market for gold in the coming years. This could be primarily driven by fear of economic catastrophe as gold tends to be a "fear asset."

Likewise, on the silver side, there are numerous applications that could increase the demand for silver. One I'm particularly bullish on is solar power. It takes about 20 grams of silver to make a single solar panel, which is 0.7 ounces. As more countries look to get cleaner energy, I expect that the demand for silver is only going to go up with the need for more solar panels.

All in all, I believe Silver Wheaton is a great opportunity to gain access to silver and gold mining without the costs of exploration and mining. As we can see, Silver Wheaton's cost per ounce is very low, allowing it to generate sizeable margins. And while the dividend is low, investors can still expect a \$0.06 dividend.

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

2016/08/31

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