



## Silver Wheaton Corp.: Should You Own This Stock?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) has pulled back after its monster run, and investors who missed the rally are wondering if this is a good time to start a position in the stock.

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

### Streaming model

Silver Wheaton isn't a mining company; it simply provides the miners with upfront cash to help them move their projects from development to production.

In return for the funds, Silver Wheaton secures the right to purchase gold or silver produced at the mine for a very reasonable price.

How reasonable?

The company reported Q2 2016 cash costs of US\$4.46 per ounce for silver and US\$401 per ounce of gold.

Silver currently trades for US\$19 per ounce, and gold will set you back US\$1,320 per ounce, so the company is enjoying decent margins.

Why would a mining company agree to such a deal?

Most of Silver Wheaton's streaming contracts are signed on mines set up to produce base metals such as copper and zinc. The gold and silver are simply by-products.

The commodity rout has left the mining companies with low stock prices and heavy debt positions, so finding cash can be difficult. Silver Wheaton serves as a resource that doesn't increase debt or dilute shareholders.

### Earnings

Silver Wheaton reported Q2 2016 net earnings of US\$60 million, a 12% gain over the same period last year.

The company received US\$17.18 per ounce of silver in the quarter and US\$1,267 per ounce of gold. This is about 5% and 6% higher than last year.

Production also increased. Silver output rose 5% to 7.6 million ounces in the quarter, and gold output jumped 40% to 70,200 ounces.

## **Market outlook**

The precious metals have enjoyed a nice rally this year on the back of reduced expectations for rate hikes in the United States. Pundits originally saw four moves to the upside in 2016, but weak economic data and the Brexit vote have kept the Fed on hold.

Rate increases tend to push up the value of the American dollar against other currencies, making gold and silver, which are priced in U.S. dollars, more expensive for foreign buyers. Higher rates also increase the opportunity cost of holding non-yielding assets.

Gold and silver pulled back in recent weeks as analysts began to speculate that a rate hike could be in the cards for September. That led to a sell-off in the miners and the streaming companies, including Silver Wheaton, which dropped more than 15%.

The latest jobs data just came in weaker than expected, so the market is starting to move higher again.

## **Should you buy?**

If you are a gold and silver bull and want to have exposure to the segment, Silver Wheaton is a great way to play it without taking on the direct operational risks faced by the miners.

The stock is still up more than 100% for the year, so I would keep the position small.

## **CATEGORY**

1. Investing
2. Metals and Mining Stocks

## **TICKERS GLOBAL**

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

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