Why Silver Wheaton Corp. Should Stay in Your Portfolio

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) is a precious metals streamer. This means that, essentially, Silver Wheaton provides upfront financing for traditional metal producers to set up and begin mining operations. In exchange, the metal producer will sell a dedicated amount of the precious metal extracted from the mine to Silver Wheaton at a discounted rate.

Those discounted rates could be as low as US$4.50 per ounce for silver and US$400 per ounce for gold.

This business model can be particularly lucrative for the streamer as there are fewer risks when compared to traditional mining companies, and the discounted metals can then be sold at market rates, creating even more revenue for the streamer.

As one of the largest precious metal streamers in the market, Silver Wheaton has a fairly large portfolio of streaming contracts, but that isn't reason enough to keep the company in your portfolio.

Here's a look at why you should consider adding Silver Wheaton to your portfolio if you haven't already, and why you should keep it in your portfolio if you are currently considering selling it.

Silver Wheaton and gold haven't peaked yet

The most common reason for reconsidering a Silver Wheaton position is the view that the stock has plateaued. Some investors looking at the performance of the stock over the past year will likely have that view, citing Silver Wheaton's 120% year-to-date increase in stock price.

Yes, the stock has soared this year. But in reality, so has just about every other stock associated with the precious metals industry. Part of this has to do with the resurgence in gold prices, and part of this has to do with gold's historical view as safe store of wealth in uncertain times–a view that is starting to gain traction again.

When gold prices dropped a few years ago, gold producers were left with bloated operations and budgets. Gold producers had to become leaner and more efficient to survive, which they did. All-in sustaining costs for gold producers were as high as US$1,100 per ounce before the epic collapse of gold prices. By comparison, some gold producers have recently announced all-in sustaining costs that are, in some cases, sub-US$800 per ounce.

With gold prices back on the rise, producers are finally seeing profits, which has caused stocks to recover some of those losses from the past few years. This is a key point that many investors overlook. Gold prices are still weaker than they were five years ago, and gold producers are not yet at the position they once were (but they're arguably healthier thanks to those cost-cutting efficiencies).

So the market, and Silver Wheaton by extension, haven't peaked yet. Growth may be slow, but there's still room to go higher.

Silver Wheaton's position is vastly improving

Silver Wheaton has forecasted growth and earnings increases of over 20% annually over the next few years. This is thanks to both an increased output being forecasted as well as an expected gradual increase in precious metals prices.

The current production forecast calls for 54 million ounces of silver to be produced this year. Should this come to fruition, Silver Wheaton will finish the year with production levels up 25% year over year. Factor in a steady increase in precious metals prices and you can see the potential of the stock.

In my opinion, Silver Wheaton remains a solid investment option for those investors looking at diversifying their portfolio with a company in the precious metals industry.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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

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