



Silver Wheaton Corp.: Is the Party Over?

Description

Silver Wheaton Corp. (TSX:SLW)(NYSE:SLW) has enjoyed a monster rally in 2016, but recent weakness has investors wondering if the good times are at an end.

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

Attractive business model

Silver Wheaton isn't a miner; it simply provides mining companies with the funds they need to move projects from development to production. In exchange for the cash infusion, Silver Wheaton is given the right to buy gold or silver produced at the mine for an attractive price.

For example, the company's Q2 2016 cash costs for silver and gold were US\$4.46 and US\$401 per ounce, respectively. Silver and gold currently trade for US\$19 and US\$1,315 per ounce, respectively, so the margins are significant.

Streaming deals are normally negotiated on mines set up to produce base metals. The gold and silver are simply by-products in the process.

Mining companies are willing to enter into such contracts because raising cash can be difficult, and Silver Wheaton provides a funding option that doesn't add debt or dilute shareholders.

Precious metals markets

Gold and silver have staged strong rallies in 2016 as a result of reduced concerns surrounding interest rate hikes in the United States.

Rising rates are generally negative for the gold and silver because they increase the opportunity cost of holding the non-yielding assets. Higher rates in the United States also tend to push up the value of the U.S. dollar, making gold and silver more expensive for buyers using other currencies.

The U.S. Federal Reserve began 2016 with the intention of raising rates four times, but weak economic

data and uncertainty in global financial markets have kept the Fed on hold.

Now, the market is looking for just one hike by year-end.

What caused the sell-off?

The post-Brexit surge in silver wheaton's stock started to run out of steam in August, and investors have since decided to take some profits.

At its September meeting, the Fed remained on hold, which was initially positive for gold and silver, but comments by its members have taken a hawkish tone and economic data in the U.S. is sending mixed signals. As a result, the market is taking a wait-and-see approach, and the overall mining sector remains in limbo.

Should you buy?

Silver Wheaton is still up nearly 100% year-to-date, so there is room for another wave of profit taking if the market starts to think the Fed is going to be aggressive in 2017.

If you are a long-term silver and gold bull, Silver Wheaton is great way to play the market without taking on the direct operating risks associated with the miners. At this point, however, I would keep any new positions to a minimum until there is clear evidence the market is heading higher.

CATEGORY

1. Investing
2. Metals and Mining Stocks

POST TAG

1. Editor's Choice

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

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Author

aswalker

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