



Why Now Is the Time to Buy Silver Wheaton Corp.

Description

Despite claims that the newly emerged bull market in precious metals had ended abruptly, there are signs that gold and silver will move higher before the end of the year. This makes the recent pullback in silver (the white metal is down by 9% over the last two months) an opportune time for investors to boost their exposure to silver.

One of the best means of doing so is with precious metals streamer **Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW).

Now what?

Unlike the primary silver miners, Silver Wheaton is a far lower-risk investment. This is because it is not in the business of operating silver mines or exploring for silver deposits.

Instead, it focuses on providing financing to miners, so they can fund their exploration and mining activities.

In exchange, it either receives a royalty on the precious metals produced or the right to buy them at prices well below the market price. This means that it is a far less risky investment and has significantly lower operating costs than any of the miners.

Consequently, it can remain profitable at prices the miners can't, and when prices rise, its margins expand at a far greater rate, giving its bottom line a healthy bump.

Nonetheless, despite the lower degree of risk, it still offers the same levered exposure to silver, meaning investors get a bigger bang for their buck than by investing in bullion or a silver ETF.

Silver Wheaton is not solely dependent on silver to generate earnings. It has diversified its streaming and royalty contracts into gold. For the second quarter Silver Wheaton received 43% of its revenue from gold and the remainder from silver.

For the same quarter, it made record gold sales, allowing it to take full advantage of the higher gold

prices that have existed since February. Precious metals prices have been even higher since the start of the second half of the year, and Silver Wheaton should deliver some impressive third-quarter results. It is also on track to deliver full-year production of 305,000 ounces, which is 25% higher than the 265,000 ounces originally forecast and will give its earnings a solid boost.

More importantly, despite fears of U.S. rate hike and a stronger U.S. dollar, the outlook for precious metals, especially silver, remains positive. Many analysts and economists are predicting that inflation will rise sharply in coming months, and, in an inflationary environment, one of the best-performing assets is precious metals.

There is also the growing industrial demand for silver—a large portion of which is coming from the demand for solar arrays.

Because of its conductive qualities, silver is an important element used in the fabrication of a range of electronic components, and particularly the photovoltaic cells that make up solar panels. The demand for solar arrays is growing exponentially because of the secular trend to renewable energy, which is acting as a powerful tailwind. Governments globally are seeking to reduce pollution by increasing the proportion of electricity that is derived from solar energy.

This trend is relatively immune to the vagaries of the economic cycle, meaning that even if there is an economic slump, this demand will continue to grow.

So what?

Another attribute that makes Silver Wheaton a better investment than bullion is that it rewards investors with a regular dividend payment. Gold and silver are zero-yield assets, which can make them unpopular with investors. Silver Wheaton rewards investors with a yield of almost 1%, giving them a steady, sustainable income stream as they wait for its share price to appreciate.

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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