



## Is Silver Wheaton Corp. Heading Back to \$40?

### Description

**Silver Wheaton Corp.** (TSX:SLW)(NYSE:SLW) is rebounding after a significant pullback.

Let's take a look at the current situation to see if the stock could rally back to the 2016 highs.

### An intriguing business

Silver Wheaton is a funny beast in the precious metals sector.

The company doesn't actually own any mines; it simply provides mining companies with upfront cash to help them move their projects from the drawing board to production.

The deals are often negotiated on base metal mines that have some gold or silver output as a by-product, and Silver Wheaton secures the rights to buy this gold or silver at an attractive price for several years or even the operating life of the mine. It then sells the product at market prices.

The mining companies are willing to do this because Silver Wheaton offers an attractive source of funding that doesn't burden the balance sheet or dilute shareholders.

What about margins?

Silver Wheaton reported average Q2 2016 cash costs of US\$4.46 per ounce of silver sold and US\$401 per ounce of gold sold, resulting in operating margins of US\$12.72 per ounce of silver and US\$866 per ounce of gold.

Nice!

Management seems to think gold is headed higher in the coming years and has been increasing the size of the yellow metal's mix in the streaming deals. Gold production for the first half of 2016 hit 130,000 ounces, which is almost double the amount the company reported for the same period in 2014.

### Gold and silver outlook

The precious metals have rallied in 2016 on the back of reduced expectations for interest rate hikes in the United States. The market originally thought the U.S. Federal Reserve would raise rates four times this year, but weak economic data and global financial uncertainty have kept the Fed on hold so far in 2016.

Analysts are now trying to figure out how many hikes could be in the cards for 2017.

Economic data remains mixed, and uncertainty around the U.S. election is providing a bit of a lift to the gold and silver markets, as well as the stocks connected to these sectors.

At this point, it looks like gold and silver want to drift higher in the near term, but volatility should be expected.

### **Is a move back to \$40 in the cards for Silver Wheaton?**

A Trump win or another big hiccup in the global financial markets could easily send the precious metals soaring again, and Silver Wheaton would certainly tag along for the ride. As such, a run back to \$40 per share is definitely possible.

### **Should you buy?**

Investors who are long-term gold and silver bulls should consider owning this stock. Silver Wheaton is a great way to play strong precious metals prices without taking on the direct operating risks faced by the mining companies.

I wouldn't back up the truck today, given the huge year-to-date run, but it makes sense to hold a small position in your portfolio if you think the metals are moving higher.

### **CATEGORY**

1. Investing
2. Metals and Mining Stocks

### **TICKERS GLOBAL**

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

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