



Why Pan American Silver Popped This Morning

Description

While Fools should generally take the opinion of Wall Street with a grain of salt, it's not a bad idea to take a closer look at particularly stock-shaking upgrades and downgrades — just in case their reasoning behind the call makes sense.

What: Shares of **Pan American Silver Corp.** (TSX:PAA) climbed 2% in premarket trading Friday after TD Securities upgraded the silver explorer from hold to buy.

So what: Along with the upgrade, analyst Daniel Earle boosted his price target to \$19 (from \$14), representing about 30% worth of upside to yesterday's close. While contrarians might be turned off by the stock's strong turnaround in recent months, Earle thinks there's plenty of room to bounce given Pan American's much-improved fundamentals and still-reasonable valuation.

Now what: According to TD, Pan America's risk/reward tradeoff is particularly attractive at this point. "We have made only slight changes to our estimates, but have increased our target multiples significantly to reflect the company having swung to what we view as sustainable free cash flow after burning cash for the first three quarters of the year and multiple expansion in its peer group," noted Earle. "Pan American is currently trading at 1.16x our corporate NAV and 11.6x our 2015E CFPS. These multiples are significantly below those of the silver producers in our coverage universe."

So while Pan American might still be too speculative for average investors, resource-savvy Fools might want to take a closer look.

CATEGORY

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