



Is First Majestic Silver the Best Bet on a Rally in Silver?

Description

Silver miner **First Majestic Silver** ([TSX: FR](#))([NYSE: AG](#)) has seen its share price plunge 31% over the last year, as it has struggled to contain costs and remain profitable in an operating environment dominated by softer silver prices.

But there are signs the company is well positioned to rebuild its profitability. By the end of 2013 it had reported a significant increase in its silver reserves, while forecasting a healthy growth in silver production and lower operational costs for 2014. There are also emerging signs of an imminent rally in silver and this could be the news needed to tip the scales in First Majestic's favor.

Impairment charges and softer silver prices dominated 2013 results

For the full year 2013, despite reporting a 2% increase in revenue compared to 2012, First Majestic saw its bottom line plunge by over 140% to a net loss of U.S. \$38 million. The growth in revenue can be attributed to a 33% increase in total production for that period. The significant drop in net income can be primarily attributed to an impairment charge of U.S. \$28.8 million and a deferred tax accounting adjustment of U.S. \$38.8 million as a result of the Mexican Tax Reforms.

Cost blowouts caused 2013 consolidated cash costs per ounce to jump by 3% per ounce produced in comparison to 2012 and total operating costs to spike a massive 43% for the same period. Coupled with softer silver prices over the course of the year, this contributed to significantly lower profitability despite the growth in total production.

Even with such a disappointing performance, First Majestic recently reported its year-end 2013 silver reserves had grown a healthy 50% in comparison to 2012, to almost 139,000 ounces.

The outlook for 2014 is more positive

The company expects to grow 2014 production by between 13% and 25% in comparison to 2013, while reducing consolidated cash costs by between 7% and 2.5% to U.S. \$8.67 and U.S. \$9.12 per ounce produced. This all bodes well for a significant revenue boost and spike in net income if the expected rally in silver materializes.

The company has also introduced all in sustaining costs per ounce produced, which is the most

effective means of measuring the true costs and profitability of a silver miner, for the first time in 2014. For the full year, Silver Majestic expects this cost to be between \$15.87 and \$16.69 per ounce of silver produced. With silver trading at U.S. \$19.79 per ounce, this leaves a healthy margin of between \$3.92 and \$3.10 per ounce produced.

This compares favorably to many of Silver Majestic's peers. **Pan American Silver** (TSX: PAA)(NASDAQ: PAAS) estimates 2014 consolidated cash costs per ounce of between U.S. \$11.70 and U.S. \$12.70 per ounce produced, or 35% to 39% higher than First Majestic.

Silver Standard Resources (TSX: SSO)(NASDAQ: SSRI) has forecast 2014 consolidated cash costs of \$12.50 and \$13.50 per ounce of silver sold, which is 44% to 48% higher than First Majestic. This suggests that First Majestic is well positioned in comparison to those peers to generate a superior margin for every silver ounce sold.

Of the three silver miners it is First Majestic that has seen its share price hit the hardest over the last year, plunging 31% compared to Pan American's 18% and Silver Standard's 1%. Yet it still appears expensive compared to Pan American, with an enterprise-value of 12 times EBITDA and 9 times its silver reserves, compared to Pan American's 7 times EBITDA and 5 times reserves.

In comparison, Silver Standard is trading with an enterprise value of a mere 1 times its silver reserves. Its flagship Pitarrilla mine, which holds 86% of its silver reserves, is uneconomical to mine with silver prices below \$20 per ounce.

Foolish bottom line

Silver miners have been hit hard with the price of silver remaining depressed. Of the miners it is First Majestic that has seen its share price hit particularly hard. While it does not appear as attractively valued as its peers, its lower cash costs per ounce produced coupled with a significant growth in reserves and forecast production for 2014 bodes well for an improved performance.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:AG (First Majestic Silver)
2. NYSE:PAAS (Pan American Silver)
3. TSX:FR (First Majestic Silver)

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