



Add Sparkle to Your Portfolio With Silver

Description

It's no secret precious metals have been taking a beating for the past 18 months and calling the bottom is anyone's guess at the moment.

Using the respective ETFs (equity traded funds) we can see that the spider ETF for silver has been down 29% since mid-2012 and 50% off of its all-time high. The gold ETF isn't faring better with a 22% and 30% for the same time frame. While not the commodities themselves, these ETFs do a great job tracking their underlying assets for minimal fees.

So with such mediocre return why even bother looking at that sector? Because you don't find a diamond in the rough if you're looking at the same place everyone else is.

I am not suggesting you rush into those ETFs and invest 50% of your net worth far from it, but here is an interesting miner from Canada that is not only surviving this cyclical downturn but will pay you to wait for growth to come back.

Earn a 3.70% yield waiting out the storm.

Our company in focus is **Pan American Silver** (TSX: PAA)(Nasdaq: PAAS) a full-on explorer and operator of silver mines in central and South America. The company is operational since 1979 and is headquartered in Vancouver, Canada.

While most miners in recent months have been cutting EPS, revenue guidance, and dividends in recent months, Pan American keeps reiterating its guidance and increasing revenues through higher volumes of silver and gold sold. While not optimal to sell those commodities at such low prices it speaks of the strength of execution of management.

As early as last quarter, the board of directors announced a payment of the dividend of \$0.125 per share giving a steady 3.8% yield as of yesterday's price.

A balance sheet to sustain it

While words and wishes are nice to hear, can the company actually deliver on its promise of dividend

over the long term?

A quick look at the balance sheet and cash flow statement can help us find the answer to our question (not the sexiest of paragraphs, but bear with me). Last quarter, the company had over \$350 million in cash and equivalents for a current ratio of 4.8 along with a low debt/asset of 1.6%. So the company is financially sound even after a grueling 18 months of falling silver prices.

Cash flow

While a strong balance sheet can help pay a dividend short term, if operating cash flows are not sufficient to sustain the operating costs of the business, we are holding on borrowed time. Again as of last quarter, Pan American managed to generate \$36.1 million in cash from operations enough to sustain all operating expenses excluding expansion investments — an impressive feat considering the low price environment for their main commodity.

A Fool's conclusion

The precious metal miners are not the hot talk of the town nowadays and for the majority of them the reason is justified, but through all the noise lies a great operator selling at less than its book value and who is willing to pay you close to 4% per year to wait out the storm in its company. Sometimes it pays to take a contrarian view of the market.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PAAS (Pan American Silver)

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