



3 Reasons Why Silver Miners Should Be in Every Investor's Portfolio

Description

Precious metal prices remain volatile and this has seen the precious metals mining sector fall out of favour with investors. But there are signs that a sustained rally in precious metal prices is imminent.

For the year to date both gold and silver prices have remained relatively flat. But with growing demand along with supply shortages, geopolitical instability in Europe and the Middle East, and Wall Street making big bets on precious metals, I expect to see a sustained rally shortly.

Typically, the preferred means of gaining exposure to precious metals is to invest in gold, but for a variety of reasons I believe silver is a superior investment at this time, offering investors superior potential upside.

1. The gold-to-silver ratio continues to widen

Historically, there has been a close correlation between the prices of gold and silver, with it taking on average 47 ounces of silver to buy one ounce of gold. At the height of the gold bull market only 43 ounces of silver were required to purchase an ounce of gold, and since then the ratio has widened significantly, with 65 ounces of silver now required to buy one ounce of gold.

This is a clear signal that silver is heavily undervalued and should be bought in preference to gold. If the ratio returned to its historical average of 47 ounces of silver to buy one ounce of gold, then it offers investors a potential upside of 40% based on current market prices.

2. Silver supplies continue to dwindle, while demand grows

Unknown to many investors is that while silver is far more abundant in the Earth's crust than gold, the amount of visible silver available for consumption as investments, jewelry, or industrial applications is rarer. Silver supplies continue to dwindle and by the end of 2013 the amount of visible silver available for consumption had fallen 3% compared to 2012.

This trend is expected to continue primarily because silver miners wound down investment in developing mining assets as precious metal prices came crashing down to earth. When coupled with

the long lead times required to bring mining projects to production, it may take some time for supplies to grow.

This lack of supply is even more significant with demand for silver expected to grow from a range of sources, including from industry where it is an important commodity used in a range of applications. This further underscores the significant potential upside for silver prices as demand continues to outstrip supply.

3. Silver miners appear attractively priced

The final reason for investing in silver in preference to gold is that some silver miners appear attractively priced particularly in comparison to their gold mining peers. One miner, which is fast emerging as a sharp favourite for me and among investors, is the world's second largest primary silver miner **Pan American Silver Corp.** (TSX: PAA)(NASDAQ: PAAS).

Despite its share price appreciating 21% for the year to date, it remains attractively priced with an enterprise-value of only 9 times EBITDA, which is lower than **First Majestic Silver Corp.'s** ([TSX: FR](#))([NYSE: AG](#)) 13 times. Both are more attractively priced than the majority of gold miners, with their EV-to-EBITDA multiples being significantly lower than **Goldcorp Inc.'s** (TSX: G)(NYSE: GG) 17 times and **Yamana Gold Inc.'s** ([TSX: YRI](#))([NYSE: AUJ](#)) 16 times.

But both miners also appear more attractively priced than silver streaming company **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW), another favourite among investors, which has an EV of 21 times EBITDA making it appear expensive.

This can be attributed to its popularity among investors because of its low-cost operating structure, as its not required to make extensive investments in high-risk mine development or maintain high operating costs to sustain silver production. This provides it with higher margins than silver miners, while having the ability to remain profitable at silver prices the miners can't.

That feature alone make it a solid contender for investors and explains in part, the \$6.7 million bet made by John Hussman and the \$9.4 million bet made by George Soros on the company.

But I believe it is Pan American that offers investors the most potential upside, with its tasty dividend yield of 3% making it a compelling leveraged play on the price of silver.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PAAS (Pan American Silver)
2. TSX:FR (First Majestic Silver)
3. TSX:WPM (Wheaton Precious Metals Corp.)
4. TSX:YRI (Yamana Gold)

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