



Which Silver Company Is the Best Investment?

Description

Silver stocks are taking a beating as the latest quarterly reports from the largest Canadian silver miners show that high costs and low prices are starting to impact their earnings.

Over the past week, **Pan American Silver Corp.** (TSX: PAA)(NASDAQ: PAAS), **First Majestic Silver Corp.** (TSX: FR)(NYSE: AG), and **Silver Wheaton Corp.** (TSX: SLW)(NYSE: SLW) all released their latest results, but which of the three companies is best positioned to withstand falling silver prices?

Pan American Silver tops revenue expectations

Pan American Silver's revenue and production increased in the recent quarter, with revenue up 14% year-over-year to US\$200.8 million, and above analyst estimates for US\$194 million. The company posted a net loss of US\$5.7 million in the quarter, or US\$0.04 per share compared to a net loss of US\$187.1 million, or US\$1.23 per share, a year earlier. The company's adjusted earnings — the figure comparable to analyst estimates — were US\$1.8 million, or US\$0.01 per share. The result missed the Capital IQ consensus for adjusted net income of US\$0.04 per share.

Pan American Silver's all-in sustaining costs (AISC) for the first half were \$16.72 per ounce and \$18.23 for the second quarter. The average realized price per silver per ounce was \$19.58 (not including gold co-product) and the average realized price for gold per ounce was \$1,289 per gold ounce.

First Majestic Silver misses on revenue, but costs go down

First Majestic Silver missed analyst estimates on Q2 revenue, pulling in US\$66.9 million compared to estimates for US\$70.4 million. Earnings were also a miss at US\$0.02 per share compared to estimates for \$0.06.

The company's AISC was \$18.18 per payable silver ounce, down 3% from the previous quarter. Average realized silver price per ounce was \$19.59, a decrease of 6% compared to the previous quarter. The company now expects its full-year AISC to fall in the range of \$16.66 to \$16.96, compared to the previous guidance of \$15.87 to \$16.69.

Silver Wheaton's earnings decline

Silver Wheaton reported Q2 earnings that declined year-over-year. Net earnings were US\$63.5 million, or US\$0.18 per share, in Q2 2014, compared with US\$71.1 million, or US\$0.20 per share in Q2 2013. Silver Wheaton reported revenue of US\$148.6 million in the recent quarter, down 11% from US\$166.9 million in Q2 2013.

Average realized sale price per silver equivalent ounce sold in Q2 was \$19.83 (\$19.81 per ounce of silver and \$1,295 per ounce of gold), a decrease of 14% as compared to Q2 2013. It is important to note here that Silver Wheaton is not a pure silver miner. It's a metals streaming company that has a number of agreements where, in exchange for an upfront payments, it has the right to purchase all or a portion of the silver and/or gold production.

The bottom line

In reading through these results it is apparent that all three companies are in the same boat in terms of dealing with the general economics impacting the silver sector, but which of the miners is the best investment pick?

I believe First Majestic Silver is the standout. The company's recent all-in sustaining costs were just below Pan American Silver's and even through the company revised its expected AISC for the full-year, even the top range of the expected AISC per ounce (\$16.96) leaves room for profit given the recent low price of silver.

First Majestic is also a good pick because it is expanding its production and is now operating in a cash-conservation mode with AISC that are well below the current sale price of silver. Once silver rebounds, the company will be well positioned to ramp up output and capitalize on the increase in prices.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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Author

Iklingel

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