



Why Pan American Silver Corp. Belongs in Your Portfolio

Description

Pan American Silver Corp. (TSX: PAA)(NASDAQ: PAAS) never stopped paying a dividend when precious metal prices started free falling in 2012. While its competitors were slashing dividends and closing mines, Pan American kept on rewarding its investors by paying its dividend. It speaks volumes of the respect that management has for its shareholders when they continue paying dividends during such a heavy cyclical downturn.

Pan American CEO Geoffrey Burns mentioned many times in past conference calls that the dividend was an important part of the company and that there was no intention of cutting it. It's easy for management to say that when things are running smoothly, but it's a lot more meaningful when that same language is used during difficult times.

Excellent operating team

In order to meet the challenges that come with low silver prices, management implemented a cost-cutting program to try to extract the maximum amount of profit per ounce of silver.

The combination of expansion at the company's mines along with the cost-management program is bearing fruit, with AISC — all-in sustaining cost — lower by 17% so far this year at \$16.82 per ounce of silver when factoring all other metal production. All the metal produced by the company was up year-over-year, resulting in total silver production of 13.2 million ounces and 83,800 ounces of gold so far this year. Increased volumes and decreasing costs per ounce allowed the company to post revenues of \$210 million for the quarter.

Fortress balance sheet

The company is still showing a top-class balance sheet with hardly any debt — only \$49 million as of the last quarter — and close to \$400 million in cash and cash equivalents. This gives Pan American Silver a current ratio over four and a marginal debt/asset ratio of not even 2%. All of this is reassuring for the long-term investor, as management has a lot of headroom before it's faced with dividend cuts.

On the last conference call, the CEO even hinted that the company was interested in using the

strength of the balance sheet for mergers and acquisitions if an opportunity presented itself.

Silver, more than a precious metal

Contrary to gold, silver is not only an inflation protection, but is actually used in many industrial applications. Silver is the best electrical conductor known to man. This is why you can find traces of silver in smartphones, computers, and solar panels.

With such heavy industrial uses, the future of silver is much brighter than gold.

The bottom line

So far, 2014 seems to be a turning point for precious metal miners with many well-known hedge fund investors like John Paulson and George Soros taking substantial positions.

Instead of investing in gold, a commodity with practically no industrial uses, why not expose yourself to silver with Pan American? You'll not only get exposure to silver, but also to a lesser extent gold.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:PAAS (Pan American Silver)

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