



First Majestic Silver Corp. Is Shaping Up as a Contrarian Bet on Silver

Description

Despite the increasingly pessimistic outlook for gold that has made a number of analysts revise their outlook in recent weeks, there are signs that silver could rally. I believe one of the best ways to play this rally is with primary silver miner **First Majestic Silver Corp.** ([TSX:FM](#))([NYSE:AG](#)).

Now what?

First Majestic reported some solid results for 2014 though silver plunged by 26% over the course of the last year. Despite softer silver prices and a net loss of US\$0.52 per share, it met analysts' expectations.

On the surface, this net loss looks worrying, but when you dig a little deeper, it is easy to see the company's strengths.

The net loss can be attributed to First Majestic recording non-cash impairment charges totaling US\$102 million due to softer silver prices triggering a decline in the carrying cost of some of its mining assets.

Meanwhile, full-year silver production shot up a healthy 19% year over year to be 15.3 million ounces, which was in line with its 2014 guidance.

First Majestic also has one of the lowest cost operating structures in its industry, with 2014 all in sustaining costs (AISCs) of US\$17.71 per ounce. These are lower than many other primary silver miners, including **Pan American Silver Corp.**, which reported AISCs of US\$18.62 per ounce for the same period.

More impressively, fourth-quarter 2014 AISCs fell by an impressive 27% quarter over quarter to US\$14.43 per ounce because of the company's ongoing cost cutting and efficiency initiatives gaining traction. First Majestic's 2015 guidance of AISCs of US\$13.96 to US\$14.98 per ounce is realistically achievable. It also means that the company will remain profitable even if softer silver prices persist for some time.

However, the key question is whether or not silver prices will rebound, particularly with gold under

pressure due to a strong U.S. dollar and the Fed's impending rate rise. I believe that in the long term, silver prices will rebound and should offer considerably more upside than gold.

Unlike gold, silver is used in a wide range of industrial applications because of its conductive properties. Its use in these applications, including the manufacture of photovoltaic cells for use in solar panels, flexible touch screens, light-emitting diodes (LEDs), and semi-conductor stackers will continue to grow exponentially.

The demand for solar power as part of clean-energy initiatives is expected to explode between now and 2020, as is the demand for consumer electronics, where flexible touch screens, LEDs, and semi-conductor stackers are key components.

This will apply further pressure to an already delicate supply situation, as there is insufficient silver to meet global demand.

So what?

First Majestic's high quality long-life mining assets, coupled with its ongoing initiatives to reduce costs, make it an appealing play on silver. More importantly, with its costs being fixed, it offers a levered bet on higher silver prices, meaning there is greater potential upside than silver bullion can offer.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:AG (First Majestic Silver)
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