



2 Silver Stocks Trading Under \$5 That Could Rise Over 70% by 2017

Description

Many investors think that stocks trading under \$5 are great bargains, but this is not the case by any means. Oftentimes, a stock has fallen to those levels because of a weak financial performance by the company, because it has flooded the market with too many of its shares, or, in some cases, accounting or legal issues.

One way to find a true bargain is to look for the stocks of companies that are profitable and trade at inexpensive valuations compared with their five-year averages. To make things even easier, I have found two silver stocks that meet this criteria perfectly, so let's take a closer look at each companies' first-quarter earnings results and their stocks' valuations to determine which would be the best fit for your portfolio.

1. Fortuna Silver Mines Inc.

Fortuna Silver Mines Inc. ([TSX:FVI](#))([NYSE:FSM](#)) is a silver and base metal producer focused on mining opportunities in Latin America. In the first quarter of fiscal 2015 its net income decreased 20.4% to \$3.9 million, its earnings per share decreased 25% to \$0.03, and its revenue decreased 12.5% to \$39.8 million compared with the year-ago period, as its total silver production increased 6.3% to 1.63 million ounces.

At today's levels, Fortuna's stock trades at 33.5 times fiscal 2015's estimated earnings per share of \$0.14 and 23.5 times fiscal 2016's estimated earnings per share of \$0.20, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 78.7. I think the company's stock could consistently command a fair multiple of at least 40, which would place its shares around \$5.60 by the conclusion of fiscal 2015 and around \$8 by the conclusion of fiscal 2016, representing upside of more than 19% and 70%, respectively, from current levels.

2. Sierra Metals Inc.

Sierra Metals Inc. ([TSX:SMT](#)) is a mining company focused on the production of precious and base metals in Peru and Mexico. In the first quarter of fiscal 2015 its adjusted net income decreased 43% to \$4.08 million, its adjusted earnings per share decreased 40% to \$0.03, and its revenue decreased

16.6% to \$34.74 million compared with the same quarter a year ago, as its total production increased 6.5% to 3.05 million silver equivalent ounces.

At current levels, Sierra's stock trades at 17.8 times fiscal 2015's estimated earnings per share of \$0.09 and 14.5 times fiscal 2016's estimated earnings per share of \$0.11, both of which are inexpensive compared with its five-year average price-to-earnings multiple of 64.5. I think the company's stock could consistently trade at a fair multiple of at least 25, which would place its shares around \$2.25 by the conclusion of fiscal 2015 and around \$2.75 by the conclusion of fiscal 2016, representing upside of more than 40% and 71%, respectively, from today's levels.

Should you add one of these stocks to your portfolio?

Fortuna Silver Mines and Sierra Metals could generate huge returns for investors over the next few years if they operate efficiently. Foolish investors seeking a speculative play should take a closer look and strongly consider establishing positions in one of them today.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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Author

jsolitro

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