



Why First Majestic Silver Corp. Is a Great Way to Play Higher Silver Prices

Description

The last few years since the end of the bull market in precious metals has been a particularly tough time for silver miners. The price of the lustrous white metal is languishing at its lowest levels since the global financial crisis.

However, there are signs that silver has [broken out](#) of this protracted slump and is headed higher, which bodes well for beaten silver miners that have suffered heavily because of weak silver prices. One primary silver miner that stands out as an excellent opportunity to play the rally in silver is **First Majestic Silver Corp.** ([TSX:FR](#))([NYSE:AG](#)).

Now what?

It wasn't that long ago that First Majestic had fallen into disfavour with investors as it battled high operating costs, deteriorating cash flows, and a weak balance sheet. There are a range of indicators, however, that those issues are now firmly behind the company, and it is well positioned to benefit from higher silver prices and unlock value for investors.

You see, the protracted slump in silver was a wakeup call for the silver mining industry and it forced miners to slash costs in order to boost margins and ensure the sustainability of their operations.

Impressively, First Majestic savagely cut its costs to the point where all-in sustaining costs for the first quarter 2016 were US\$8.97 per ounce, or almost half of what they were in 2014. Such a marked reduction in costs not only allowed First Majestic to survive the slump in silver, but leaves it well positioned to cash in on higher silver prices; its margins are set to grow quite strongly as silver appreciates in value.

Then consider that First Majestic has been able to significantly boost production, rising by a remarkable 30% year over year, further allowing First Majestic to take advantage of higher silver prices.

More importantly, First Majestic was able to shore up its balance sheet and ended the first quarter with US\$62 million in cash and long-term debt of a mere US\$41 million.

It was able to complete a US\$60 million debt-financing deal during the first quarter that allowed it to defer the debt repayments due in 2016. And last month it completed a \$50 million bought-deal private placement with the funds earmarked for expanding exploration and development across its existing assets. This will allow it to further grow production and subsequently cash flows, allowing it to take full advantage of firmer silver prices over the long term.

For all of these reasons, I am expecting a healthy bump in First Majestic's bottom line, which will help its share price to continue appreciating in value.

So what?

In the past, silver miners have not been the best way to play silver, primarily because of their high operating costs, but the ongoing weakness in silver has forced them to rationalize their operations to ensure their sustainability. First Majestic has done a great job of this, sharply reducing costs, strengthening its balance sheet, and boosting its margins, leaving it well positioned to unlock value for investors as silver rises in value.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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1. NYSE:AG (First Majestic Silver)
2. TSX:FR (First Majestic Silver)

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Author

mattdsmith

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