



Why First Majestic Silver Corp. Is 1 of the Best Plays on Silver

Description

Silver has been on a tear of late, throwing off the shackles of a two-year bear market to surge into what a number of analysts are claiming is a new bull market. This has been extremely beneficial for beaten-down silver miners, causing a number of them to rally quite strongly in recent months.

Now, because of the Fed taking a more dovish stance on interest rates and the uncertainty surrounding the global economy, there are signs that silver has further to rally. One of the best means of gaining exposure to higher silver prices is with primary silver miner **First Majestic Silver Corp.** ([TSX:FR](#))([NSYSE:AG](#)).

Now what?

It wasn't that long ago when First Majestic was struggling to survive in a harsh operating environment dominated by weak silver prices, which—for a sustained period—remained at under US\$15 per ounce. Nevertheless, this motivated the company to focus on making its operations more sustainable by cutting costs and strengthening its balance sheet.

After completing a \$50 million equity raising in May 2016 First Majestic's balance sheet is in solid shape, finishing the second quarter 2016 with long-term debt of just under US\$38 million and US\$108 million in cash.

More importantly, expenses have fallen sharply; second-quarter all-in sustaining costs down by 24% year over year to be a healthy US\$10.97 per ounce. These are among the lowest for any of the primary silver miners—less than **Pan American Silver Corp.**'s US\$11.31 per ounce and **Endeavour Silver Corp.**'s US\$10.53 per ounce.

This, along with higher silver prices, allowed First Majestic to report a 43% year-over-year increase in cash flow and its first net profit in over four quarters of US\$6.1 million.

I expect this solid performance to continue.

Not only has silver risen further to be 17% higher than First Majestic's average second-quarter sale

price of US\$17.02 per ounce, but costs are expected to keep falling. The miner now expects 2016 all-in sustaining costs to be 7% lower than its original forecast from earlier this year. Both of these factors will certainly boost its margins for the remainder of 2016.

First Majestic was also able to grow second-quarter production by 5% compared with the same period in 2015, despite a decline in ore grades because of planned work at its Santa Elena mine. This can be attributed to a 7% year-over-year increase in recovery rates, and First Majestic now remains on track to achieve its projected production of at least 17 million ounces, which is almost a 6% increase over 2015.

Such solid production growth will allow First Majestic to take full advantage of higher silver prices and significantly boost its earnings.

It is also important to consider that First Majestic holds a portfolio of quality silver mining assets with reserves of almost 101 million ounces located in the favourable mining jurisdiction of Mexico. An important indicator of the quality of these assets is the ore grade, which determines just how costly a mine is to operate.

The higher the quality of the ore, the less costly and more efficient it is to extract the silver. First Majestic's silver reserves have an average grade of 161 grams of silver for every tonne of ore, which is above the average for primary silver miners.

So what?

With indications that higher silver prices are here for at least the foreseeable future, First Majestic offers an attractive opportunity to gain exposure to silver. Its solid balance sheet, quality mining assets, growing production, and low operating costs will all help to boost its profitability, thereby boosting its bottom line and causing its share price to appreciate.

CATEGORY

1. Investing
2. Metals and Mining Stocks

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