



1 of the Best Plays on the Impending Silver Rally

Description

Since the proclamation by analysts that gold had entered a new bull market in mid-2016, the level of interest in precious metals had grown considerably. Interestingly, despite gold rallying quite strongly since the start of this year, silver has weakened, making now an opportune time for investors to boost their exposure to the white metal. One of the best plays on silver is precious metals miner **Fortuna Silver Mines Inc.** ([TSX:FVI](#))([NYSE:FSM](#)).

Now what?

Late last year, silver shot up to its highest price in two years, but since then it has weakened, despite gold rallying strongly in recent weeks. This has caused the gold-to-silver ratio to widen; it takes 74 ounces of silver to purchase one ounce of gold. In an environment where gold is rising, this highlights that silver is undervalued, meaning a rally is looming.

In addition, the demand fundamentals for silver remain positive.

Because of its conductive qualities, it is key element used in the fabrication of the photovoltaic cells that make up solar panels. As the push to prevent climate change intensifies, the demand for renewable sources of electricity, such as solar power, is growing exponentially.

The conductive characteristic also makes it an important ingredient used in the manufacturing of hi-tech electronic components such as LCD touch screens, light emitting diodes, electrical switches, and printed circuit boards. As the demand for the devices that use these components keeps growing, the consumption of silver for industrial purposes can only grow.

Miner Fortuna Silver is among the best means of playing the impending rally, because, like all miners, it offers levered exposure to silver. It also possesses a range attributes that should see its stock appreciate considerably as silver rises in value.

A key attribute is Fortuna's high-quality mining assets.

Fortuna operates the San Jose silver and gold mine in Mexico as well as the Caylloma silver mine in

Peru. Between these two mines, it has silver reserves of just over 160 million ounces.

Because of these high-quality reserves, Fortuna has a solid history of growing silver production. By 2016, total production had more than doubled from 2012, and in 2017 it is expected to grow by 6% compared to 2016.

Furthermore, the Lindero project in Argentina will give Fortuna's gold output a massive boost when it comes online in 2018. The ore body has been assessed to have reserves of 1.7 million ounces of gold, giving the mine an operational life of 12 years. The mine is forecast to produce 127,000 ounces of gold in its first year, which will ramp up to 139,000 ounces in 2019.

In conjunction with higher silver output, this will give Fortuna's earnings a healthy bump.

More importantly, Fortuna has been able to significantly reduce its cost structure. For 2016, all-in sustaining costs (AISCs) were a stunning 36% lower than a year earlier.

While 2017 AISCs are expected to increase by 9% compared to 2016, this can be attributed to an increase in capital spending on mine maintenance and development.

It is important that Fortuna has taken the opportunity to boost spending on mine development because this will help it to sustain the planned expansion in production in coming years, further boosting earnings.

Fortuna also has a robust financial position; it had US\$103 million in cash at the end of third quarter 2016 and US\$20 million in an untapped credit facility. It also successfully raised almost US\$75 million from an equity financing deal in February 2017, which further bolstered its balance sheet.

So what?

Fortuna possesses considerable potential and will perform strongly when silver rallies. The increased diversification into gold because of the Lindero development, Fortuna's solid balance sheet, and its significant liquidity make it an attractive play on higher precious metal prices.

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