



## Bullish on Gold and Silver Prices? Then Check Out Silver Standard Resources Inc.

### Description

Contrary to what **Silver Standard Resources Inc.'s** (TSX:SSO)(NASDAQ:SSRI) name implies, it is not simply a company with exposure to silver. Of the company's total production, 22% is silver production with the remainder being gold production. The company has three producing mines: one in Nevada, U.S., one in Saskatchewan, Canada, and the biggest one in Argentina.

The company is exposed to gold and silver prices and, on the expense side, oil is a significant cost at its operations. A portion of the company's diesel usage is hedged.

### Strong cash flow

Silver Standard has had an impressive performance in the last few years with strong cash flow generation and strong cost performance. The operating cash flow for 2016 was \$171 million, and in the first quarter of 2017 operating cash flow increased 87% to \$37.9 million.

The company's gross margin for the first quarter was 34% compared to the 23% gross margin in the same quarter last year, which was due to higher realized prices of gold and silver and lower costs. In fact, the company has been reducing costs nicely since 2016, when total cash costs were \$715 per ounce. And although the all-in sustaining cash cost increased to \$974 per ounce, total cash cost declined 9.6% to \$646 per ounce.

Lastly, but very importantly, the company has successfully generated free cash flow with \$11.5 million in the first quarter versus \$5.1 million in the same quarter last year.

### Strong balance sheet

With a debt balance of \$223 million, a debt-to-equity ratio of 23%, and a cash balance of \$340 million, the company's balance sheet leaves it well positioned to take it through its exploration plans and to allow it to consider potential acquisitions to increase its size and production levels.

## Better than expected performance

The company has reported better than expected financial results in at least the last four quarters and has successfully bumped up its reserves in 2016 for a 31% and 50% increase in reserves at its Canadian and U.S. gold mines, respectively.

In summary, I would expect continuing geopolitical tensions and a weak U.S. dollar to drive gold prices higher. In the case of silver, declining supply and increasing demand should drive it higher. Given this, with exposure to both metals as well as a superior operational performance and strong cash flows, Silver Standard can be expected to reap the rewards of the underlying precious metals price strength.

The market has recognized the company's outperformance, and investors have bid up the stock price over the last few years. The stock has a three-year return of 71% and a one-year return of 14.9%.

## CATEGORY

1. Investing
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