



1 Silver Miner Under \$5 That Could Easily Double

Description

Silver continues to lag behind its more prestigious cousin gold, causing the gold-to-silver ratio to widen to its highest point since late 2016. Along with the positive outlook and fundamentals surrounding silver, now is the time for investors to boost their exposure to the lustrous white metal.

Typically, when investing in silver, investors favour the larger miners or precious metal streamers, but one of the best ways to maximize the potential return is to invest in smaller miners that are attractively priced, possess solid balance sheets, and own quality assets. One such miner is small-cap **Sierra Metals Inc.** ([TSX:SMT](#)). It currently trades for under \$5 per share and is poised to unlock considerable value for investors as it expands its operations and as the price of silver rises.

Now what?

Sierra Metals owns and operates two underground mines in Mexico and one in Peru. It has over 40 million ounces of silver equivalent reserves and diversified production across silver, gold, zinc, lead, and copper. This means that not only does it benefit from higher precious metals prices, but it has also benefited from the surge in base metal prices experienced over the last year.

Impressively, Sierra Metals has a solid history of production growth with output having doubled between 2011 and 2016. Furthermore, 2017 production is forecast to grow by almost 7% year over year, positioning the miner to take full advantage of higher silver prices.

Sierra Metals has also worked hard to reduce expenses. For the first quarter 2017, all-in sustaining costs were \$12.84 per ounce, or a remarkable 21% lower than a year earlier. There are signs that these costs will continue to fall as the company focuses on implementing further efficiencies at its operations. Along with higher production and higher silver prices, this will give its earnings a sizeable lift.

Solid production growth will continue for at least the foreseeable future. Sierra Metals's strong financial position has allowed it to invest a total of US\$49 million in its operations over the course of 2017, of which almost US\$24 million is being directed to exploration and other growth projects. Key among these is the investment of almost US\$11 million on further improvements at the Yauricocha mine in

Peru, which is its most prolific and lowest-cost mine. Sierra Metals also plans to invest just over US\$20 million on developing its Cusi and Bolivar mines in Mexico.

One aspect of smaller precious metals miners that investors should always consider is their financial health. In the case of Sierra Metals, the company's financial health is quite strong, as evidenced by its solid balance sheet.

At the end of the first quarter 2017, it had almost US\$38 million in cash and long-term debt of just under US\$47 million.

After accounting for short-term debt outstanding at the end of the first quarter totalling US\$28 million, Sierra Metals has consolidated net debt of a mere one times its operating cash flow. Such a low ratio indicates that it is generating sufficient cash flow to meet its debt expenses and that Sierra Metals is not over levered, meaning that it is well equipped to survive any slump in gold or silver prices.

So what?

Sierra Metals is well positioned to benefit from the looming rally in silver, which will give its earnings a healthy bump, causing its stock to appreciate. The miner's key attributes, including a solid balance sheet and quality mining assets, means it is capable of meeting management's goal of becoming a large-cap producer with a billion-dollar market cap.

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