4 Reasons Why Silver Standard Resources Inc. Is my Value Pick for the Month

Description

Silver Standard Resources Inc.'s (TSX:SSO)(NASDAQ:SSRI) shares have a three-year return of 29%. I believe that the recent price drop makes it a very attractive value play.

My bullish thesis on the stock has not changed since earlier this year, and the company continues to post results that are both exceeding expectations, further demonstrating the quality of the company.

Yet despite this, the stock has been weak in the last year, with a one-year return of negative 34%. But that's okay; this just makes the stock an even more attractive buy, and now a really good time to do so.

Here's why I believe the shares represent good value.

Firstly, after a very strong first quarter 2017, the company recently reported that production for the second quarter was ahead of expectations. Gold production at the company increased 5.3% to 103,100 ounces, and silver production increased 28%.

Secondly, the company has exceeded expectations in the last few quarters, showing very strong cash flow growth and earnings growth.

Silver Standard has had an impressive performance in the last few years with strong cash flow generation and strong cost performance. Its 2016 operating cash flow 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. This 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.

Also, 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.

Thirdly, the company has successfully bumped up its reserves in 2016 for a 31% and 50% increase, respectively, in reserves at its Canadian and U.S. gold mines.

And lastly, 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 is well positioned to take it through its exploration plans and to allow it to consider potential acquisitions to increase its size and production levels.

The company will be reporting second-quarter results in August 9. Based on these initial production numbers and its history of exceeding expectations, I expect that it will be another very strong quarter.

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