



This Primary Silver Miner Is Ready to Soar

Description

Silver, despite the considerable optimism surrounding the outlook for the white metal in recent years, has failed to perform, lagging behind its more prestigious peer, gold. There are signs, however, that silver is powering up for a solid rally that could see its price surge in coming months.

This makes now the time for investors to consider bolstering their exposure to long-beaten-down silver miners. One for investors to consider is the world's second-largest primary silver producer **Pan American Silver Corp.** ([TSX:PAAS](#))(NASDAQ:PAAS).

Now what?

The poor performance of silver has weighed on Pan American's stock, causing it to fall by almost 5% over the last year, but there are a range of catalysts poised to boost the miner's value. Key among them are growing signs that silver is heavily undervalued relative to gold.

You see, a key measure of the relative value of the two precious metals is the gold-to-silver ratio, which essentially indicates how many ounces of silver are required to buy one ounce of gold. At the end of 2017, it took 77 ounces of silver, but since then it has widened to now require 80 ounces. That is well above the 40-year average of 63 ounces, indicating that in an environment where gold will remain firm, silver should rise in value and close the gap.

Growing industrial consumption of the white metal is expected to increase by ~2% during 2018, as demand from the solar and automotive industries continues to rise. This, along with supply constraints created by a lack of investment in exploration and mine development, will help to boost prices.

The consensus target among analysts for 2018 is US\$17.80 per ounce, but some believe that it could rise to as high as \$21 during the year. That means there is 7-27% upside available for silver.

Given Pan American's leverage to the price of the white metal, this will give its stock a healthy boost, even if the price of silver only makes modest gains.

The miner is an attractive play on higher silver because of its quality assets, long-life reserves totaling

288 million ounces of silver, and low-cost production, which saw it report all-in sustaining costs for 2017 of US\$10.79 per ounce produced. Pan American expects 2018 silver output to rise by 6% compared to 2017, allowing it to benefit from higher silver prices, giving its earnings a healthy lift.

Because of silver's prolonged slump, Pan American focused on strengthening its balance sheet. It finished 2017 with US\$227 million in cash, US\$527 million in available liquidity, and total debt of a mere US\$10.6 million. That has endowed it with considerable financial flexibility, leaving it well positioned to invest in expanding its operations to take full advantage of higher silver.

Pan American owns a diversified portfolio of exploration- and development-stage projects across North and South America, endowing it with considerable exploration upside, which will allow the miner to further grow production and reserves. This includes the Navidad early stage development project located in Argentina, which is one of the world's largest undeveloped silver deposits containing measure resources of almost 68 million ounces of silver.

For 2018, Pan American plans to invest up to US\$155 million in capital expenditures on maintaining its existing operational mines as well as developing those assets.

So what?

Pan American shapes up as a compelling way to gain exposure to silver with its quality assets, strong balance sheet, long-life silver reserves, and growing production all leaving it well positioned to soar as silver rises. Unlike silver bullion and other miners, Pan American rewards investors with regular dividend payments, which yield just under 1%, enhancing its appeal.

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