



1 Attractively Valued Miner to Boost Your Exposure to Silver

Description

This year has been a great year for commodities, most notably gold, base metals and oil. It hasn't been so great for silver, silver miners, or investors in the white metal, however. While gold has remained flat since the start of 2018 and oil has surged by 19%, silver has declined by 3%.

Nonetheless, there are signs that the [outlook for silver](#) is improving, and one of the best ways to gain exposure to the white metal is by investing in **Silvercorp Metals Inc. (TSX:SVM)(NYSE:SVM)**, which has plummeted by 25% over the last year. This sharp dip in its value has created an opportunity for investors seeking exposure to silver over the long-term.

Now what?

Silvercorp is China's premier primary silver producer; it owns five operational mines in the country and one suspended mine. The miner has 113 million ounces of silver reserves across those assets and is responsible for producing over six million ounces of silver annually.

Aside from the weakness of silver, part of the reason for Silvercorp's stock poor performance in recent months was its poor fiscal third quarter 2018 results. Silver production declined by around 12% year over year, and all-in sustaining costs (AISCs) almost doubled compared to a year earlier to US\$3.16 per ounce, which caused net income to decline by 3% to US\$12.7 million. A key reason for this operational weakness was a range of production outages caused by everything from power disruptions, shortages of vital mining supplies, and mining suspensions implemented by local governments.

As a result, the volume of ore mined dropped by 3% year over year.

However, Silvercorp's view is that the worst is behind it, and the volume of ore mined — and hence silver produced — will rise over the course of the year.

It is also focused on reducing costs, which in combination with higher ore grades and a greater volume of silver ounces produced should see AISCs fall substantially and closer to previous levels. That should see a stronger financial performance from Silvercorp, which has long been one of the lowest

cost primary silver producers and highest margin miners in its industry.

It wasn't all bad news for the quarter, however. Head grades for the silver ore mined were higher, coming in at 315 grams of silver per ton of ore compared to 303 grams a year earlier. That bodes well for lower AISCs and increased production volumes. Silvercorp ended the period with a solid balance sheet, including US\$113 million of cash on hand and, notably, no debt. This endows its with considerable financial flexibility and the capacity to comfortably weather a sustained period of weaker silver.

Silvercorp is also attractively valued on the basis of a range of multiples, including market cap to ounces of silver reserves, price-to-book value and enterprise value to operating cash flow compared to its peers.

So what?

Silvercorp is an appealing mean of betting on higher silver because of its high margin mining operations, rock-solid balance sheet, and low valuation multiples. That leaves it poised to soar once [silver rallies](#), which is likely because of growing industrial demand for the metal and ongoing supply constraints.

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Date

2025/08/18

Date Created

2018/05/10

Author

mattdsmith

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