



1 Underappreciated Silver Miner Ready to Soar

Description

Silver continues to take a bath despite gold moving higher in recent weeks because of rising [geopolitical tensions](#) in the Middle East and on the Korean Peninsula. That has caused the gold to silver ratio to widen, with 79 ounces of silver now required to purchase one ounce of gold. This in conjunction with rising industrial demand for the white metal and the likelihood that it will follow gold higher should geopolitical tensions escalate makes now the time for investors to bolster their exposure to silver. An attractively valued and underappreciated precious metals miner that holds considerable potential is **Sierra Metals Inc.** ([TSX:SMT](#)), which has performed strongly, gaining 24% for the year to date.

Now what?

Sierra Metals owns three operational mines: the Bolivar as well as Cusi mines in Mexico and the Yauricocha mine in Peru, giving it reserves of 16 million ounces of silver and 194,000 ounces of gold. An indication of the quality of the company's mining assets is that it recently announced an 83% increase in the mineral reserves for its Bolivar mine in Mexico. It isn't unreasonable to expect further announcements, with the miner engaging in an aggressive drilling program at its three mines aimed at expanding its mineral reserves and resources.

Its mines are polymetallic, meaning that they produce a variety of precious as well as base metals including silver, gold, copper, zinc and lead. That means the miner not only benefits from higher precious metals prices, but also benefits when base metals prices rise, which in the current operating environment gives it a significant edge.

You see, base metals, notably copper and zinc, have performed strongly in recent months, and there is every sign that they will continue to firm over the remainder of 2018 and into 2019. The outlook for silver is also improving, with expectations that it will perform strongly, as industrial demand grows and supply constraints caused by underinvestment in existing as well as new projects kicks in.

These factors will give Sierra Metals' bottom line a healthy bump.

In fact, the miner reported some solid first quarter 2018 results, thereby indicating that these trends are

already giving it a boost. Adjusted EBITA popped by 8% year over year, while operating cash flow was 15% higher, driven by record quarterly throughput at its Yauricocha and Bolivar Mines.

Notably, all-in sustaining costs for the first quarter fell by 6% year over year to US\$9.85 per silver ounce produced, highlighting the profitability of the miner's operations, with silver trading at US\$16.50 an ounce.

Those impressive results saw Sierra Metals finish the quarter with net income of US\$8.7 million, which was more than three times greater than a year earlier.

Notably, for a smaller miner with less than mature operations compared to larger precious metals miners, Sierra Metals finished the first quarter with a solid balance sheet. It had US\$25.5 million of cash on hand and total debt of US\$67 million, providing the company with considerable financial flexibility.

So what?

Despite silver's prolonged weakness, Sierra Metals is attractively valued and possesses considerable potential. Higher base metals prices coupled with an increasingly positive [outlook for silver](#) and the quality of its operations will give both earnings as well as its share price a healthy lift in the coming months.

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