



Is First Majestic Silver Corp. (TSX:FR) Overvalued After its Latest Rally?

Description

In a stunning development, primary silver miner **First Majestic Silver Corp.** ([TSX:FR](#))([NYSE:AG](#)) has gained a remarkable 22% over the last three months despite silver falling by 6% over the same period. This has sparked considerable speculation that First Majestic's is poised to fall because it has outrun the value of silver; the outlook for the white metal also remains subdued.

Now what?

Silver has been caught in a protracted multi-year slump since the end of the precious metals bull market in late 2012. While there have been [glimmers of hope](#) regarding the outlook for the white metal, including ongoing supply deficits, its future remains cloudy.

There were tremendous expectations that the global shift to renewable sources of energy and the push to solar power, notably in China, would drive a significant uptick in the demand for silver. This is because it is a crucial element used in the fabrication of photovoltaic cells, which make up solar panels because of its conductive qualities.

While many governments globally are pushing ahead with plans to phase out coal-fired power and increase the proportion of electricity from renewable sources, the demand for silver for use in photovoltaic cells has not grown as strongly as envisaged. For 2017, it came to 94 million ounces, which while 19% greater than 2016, barely made up for the sharp decline in the consumption of silver in photography over the last two decades.

There was also a material decrease in the overall silver supply deficit, which was 20% lower than a year earlier because of a marked deterioration in the demand for silver coins and bars.

Even fears of a [trade war](#) between the U.S. and China have done little to lift the price of precious metals or see a move among investors to safe haven assets such as silver and gold. A firmer U.S. dollar and higher interest rates also do not bode well for silver.

First Majestic's Q1 2018 results also don't support the sudden appreciation in its market value. Silver ounces produced fell by a worrying 20% year over year, while cash costs per ounce shot up by 24%.

All-in sustaining costs were US\$16.01 per ounce, which was 35% greater than a year earlier and only marginally lower than the average realized price of US\$16.76 per ounce sold. This indicates that First Majestic will struggle to be profitable in an operating environment that's seen the price of silver fall below US\$16 per ounce.

As a result of those poor operational results, First Majestic reported a net loss of US\$0.03 per share compared to a net profit of US\$0.02 per share for the first quarter of 2017.

It is also unlikely that the completion of the acquisition of **Primero Mining Corp.**, the establishment of a new streaming agreement for its San Dimas mine or an updated credit facility in place will support the substantial appreciation of First Majestic's stock. Because of the less than optimistic outlook for silver, it is difficult to see how the considerable appreciation in First Majestic's market value can be justified. For these reasons, unless there is a marked improvement in the miner's second quarter results, which are due to be reported in early August 2018, First Majestic's stock will likely decline in value.

So what?

While I have long been an advocate of investing in silver miners, there is very little to make First Majestic an appealing investment. After the latest rally, which appears to have outstripped the price of silver and its future prospects, there could be considerable downside ahead.

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