Is This Low-Cost Primary Silver Miner Poised to Soar?

Description

It has been a tough few years for silver miners and investors in the white metal. While gold has managed to remain above US$1,200 per ounce, despite weaker fundamentals, silver has drifted lower in recent weeks to be trading at just over US$15 an ounce, and there are signs of further weakness to come.

Despite shaky fundamentals and a less-than-optimistic outlook, now may be just the time for contrarian investors to consider taking a position in silver. One of the most attractive means of doing so is by investing in primary silver miner **Pan American Silver Corp.** (TSX:PAAS)(NASDAQ:PAAS), which is due to report its second-quarter 2018 results next week.

Now what?

Pan American, unlike many of its peers, has defied the downward spiral of silver and gained 7% since the start of 2018. The miner owns a portfolio of North and South American mining assets that give it reserves of 288 million ounces of silver.

What makes Pan American particularly attractive in the current operating environment is its exceptionally low operating costs. For the first quarter 2018, it announced cash costs of US$1.18 per ounce of silver, which were its lowest in a decade and almost a sixth of the US$6.18 an ounce reported for the equivalent quarter in 2017.

All-in sustaining costs (AISCs) for the quarter were US$6.98 per silver ounce produced, which was almost half of the US$12.63 an ounce reported a year earlier. This leaves Pan American well positioned to achieve or even beat its 2018 guidance where it has forecast annual AISCs of US$9.30-10.80 per ounce of silver produced. Those projected AISCs are well below the current spot price for silver, highlighting that Pan American's operations will remain profitable, even if silver falls further.

This remarkable decrease in costs can be attributed to higher by-product credits.

You see, Pan American's mines are polymetallic, meaning that they contain gold, zinc, copper, and lead, which are all produced as by-products of mining silver. That means a considerable portion of the miner's revenue comes from mining metals other than silver. Pan American estimates that for 2018, just under half of all earnings will come from silver, a quarter will come from gold, and the remainder will come from copper, lead, and zinc.

Firmer gold as well as base metal prices all contributed to reducing Pan American's production costs for each ounce of silver mined.

Pan American's solid balance sheet and considerable liquidity make it an appealing investment while giving it the flexibility to weather a prolonged slump in silver. The miner ended the first quarter with almost US$225 million in cash and total available liquidity of almost US$525 million.

More importantly, Pan American finished the quarter with debt totaling a mere US$10 million, which is almost a quarter of cash flow from operations, indicating that it is a very manageable level of debt. Such a low amount of debt further enhances Pan American's financial flexibility and gives it additional levers with which to manage a prolonged slump in silver.

So what?

While the current outlook for silver is poor, and the white metal is likely to weaken further, Pan American is shaping up as an attractive contrarian investment for risk-tolerant investors. The 11% pullback in its stock over the last month has created a handy entry point.

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