



Add This Contrarian Play on Silver to Your Portfolio

Description

It has been a tough few years for silver investors and miners. After rallying sharply in mid-2016 to break through the psychologically important US\$20 an ounce barrier the white metal has continued to drift lower recently falling to US\$15.31 per ounce which is its lowest price since April 2016.

While some pundits believe that a rally is imminent, the overall [outlook for silver](#) remains poor for the foreseeable future with some analysts predicting it will remain stagnant until at least 2020. This has however created an opportunity for contrarian risk tolerant investors who are seeking discounted investment opportunities. One which stands out is primary silver miner **Silvercorp Metals Inc.** ([TSX:SVM](#))(NYSE:SVM).

Now what?

Silvercorp's operations are focused on China where it, the nation's premier silver miner, owns five operational mines and one that is currently in care and maintenance. Those assets contain reserves of 106 million silver ounces as well as considerable quantities of the base metals lead and zinc.

Despite significantly weaker silver prices, Silvercorp reported some solid fiscal first quarter 2019 results. Net income shot up by an impressive 65% year over year to US\$11 million, while cash flow was 25% higher at US\$21 million and Silvercorp's gross profit margin rose by 5% to a notable 55%. This solid performance can be attributed to a marked increase in production, with the total volume of ore mined being 5% greater year over year as well as an improvement in the head grades mined for silver.

The overall volume of silver sold declined to 1.5 million ounces, but a higher average sale price for silver, lead and zinc compared to a year earlier gave Silvercorp's earnings a solid boost.

More important, particularly in an operating environment where silver remains weak with a stagnant outlook, operating expenses fell sharply to see all-in sustaining costs (AISCs) for the quarter of US\$0.41 per ounce produced. These are less than a tenth of what they were a year earlier, and that notable decline can be attributed to a significant increase in by-credits created by zinc and lead sales.

Those by-product credits appreciated significantly because of the sustained rally of base metals, which saw Silvercorp realize average zinc and lead prices over the quarter that were 23% and 34% greater than a year earlier.

Every indication points to base metal prices remaining firm as long as full-blown trade war between China and the U.S. doesn't erupt. While full-year fiscal 2019 production is forecast to remain flat, Silvercorp's earnings should grow compared to 2018 because of those higher base metal prices and lower costs. A key driver of lower costs is improved head-grades at the Ying Mining District, where four of Silvercorp's mines are located.

It is also an appealing contrarian play on silver because it is one of the lowest cost producers among its peers.

What makes Silvercorp even more attractive is its strong balance sheet. The miner finished its fiscal first quarter with cash and cash equivalents totalling US\$115 million along with no long-term debt. This gives it considerable financial flexibility, leaving it well positioned to manage any prolonged slump in silver.

So what?

For contrarian investors seeking to bolster their exposure to silver, Silvercorp remains a highly appealing play on the white metal. It is attractively valued in comparison to its peers, having a particularly low price to book and market cap to silver reserves. In addition, its debt free balance sheet and considerable cash on hand give it a degree of financial flexibility that many precious metals miners lack.

Despite silver's [stagnant outlook](#), Silvercorp is well positioned to keep growing. This is because of its low operating costs and the fact that half of its revenue comes from zinc and lead which are experiencing an uptick in demand because of the global economic upswing.

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