# Can This Junior Silver Miner Bounce Back?

## Description

Silver drifted lower over the last week, crashing through the US$15-an-ounce barrier to prices not seen since early 2016. One primary silver miner that has been roughly handled by the market is **Great Panther Silver** (TSX:GPR)(NYSE:GPL), which has lost 33% since the start of 2018. This is almost triple the 14% lost by silver, which is under considerable pressure because of a narrowing supply deficit and weaker fundamentals for precious metals.

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**Now what?**

It is easy to understand why Great Panther has been badly treated by the market. Not only are the fundamentals and outlook for silver weak, but the miner reported some disappointing second-quarter results. The miner's production for the period fell by 9% year over year to just over one million ounces of silver equivalent, while all-in sustaining costs (AISCs) blew out by 3% to a worrying US$16.82 per silver equivalent ounce produced.

That increase in AISCs can be attributed to a marked increase in production costs at Great Panther's Guanajuato Mine Complex in Mexico, which is responsible for over 70% of its total production. Lower mill throughput for ore mined, as well as declining ore grades, contributed to the worrying increase in production costs.

The reason this is worrying is that Great Panther's AISCs for the second quarter are US$2.06 an ounce greater than the current spot price for silver. This is because, unlike other primary silver miners, such as **Sierra Metals Inc.** and **Pan American Silver Corp.**, the contribution of base metals like lead, copper, and zinc to Great Panther's metals output is insignificant.

In fact, the miner earns 49% of its revenue from silver and 41% from gold with zinc and lead making up the remaining 10%. That means Great Panther does not benefit as significantly as other miners from higher base metals, making it highly dependent on silver and gold for its profitability.

Great Panther's poor second-quarter operational results contributed to a sharp decline in mine operating earnings, which were 35% lower than a year earlier, resulting in the miner reporting aUS$2.8 million loss compared to US$833 million profit for the second quarter 2017.

Nevertheless, despite the poor second-quarter results, Great Panther remains on track to achieve its 2018 full-year guidance, including production of around four million silver equivalent ounces, which is up to 3% greater than 2017. For that guidance, cash costs are projected to be up to US$6.50 an ounce, which means that Great Panther's mines will generate cash flow even if silver remains stagnant for the foreseeable future.

It isn't all bad news when it comes to Great Panther, because, unlike many of its peers, the miner is debt free, which gives it considerable financial flexibility to weather the concerted downturn in silver. The miner ended the second quarter with a strong balance sheet holding US$37 million in cash and US$23 million in short-term deposits. That means Great Panther is more than capable of funding sustaining capital for its existing operations while funding the ongoing evaluation of the Coricancha project in Peru, which has the potential to produce up to three million ounces of silver annually.

**So what?**

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The muted outlook for silver and the growing pessimism surrounding the white metal has made silver miners unattractive investments, especially those like Great Panther that are unable to substantially benefit from higher base metals. While the miner is not the best contrarian play on silver, the recent punishment by the market of its stock, which sees it trading well below its 2017 peak, has created an opportunity for risk-tolerant, contrarian investors.

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**Date**
2025/07/02

**Date Created**
2018/08/21
**Author**
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