



There's More Upside Ahead for This Small-Cap Silver Miner

Description

Silver continues to experience [significant volatility](#) and has lost almost 14% since the start of 2018. This, along with a worsening outlook for precious metals, has created [considerable bearishness](#) over what the future holds for silver miners. Nonetheless, one that has defied the white metal's downturn is miner **Sierra Metals Inc.** ([TSX:SMT](#))(NYSEMKT:SMTS) which reported a solid second quarter 2018 performance despite silver's continued weakness.

Now what?

The miner owns and operates three mines located in Latin America; the Yauricocha mine in Peru and the Bolivar and Cusi mines in Mexico. Those assets give Sierra Metals reserves of 19 million silver ounces, 213,000 gold ounces, 477 million pounds of zinc, 388 million of copper and 151 million pounds of lead.

Regardless of silver recently plunging to its lowest price since early 2016 and remaining in a protracted slump since mid-2017, Sierra Metals reported a strong second quarter financial performance. For the quarter, the miner reported that revenue shot-up by an impressive 29% year over year while EBITDA soared by 64% and operating cash flow by a remarkable 70%.

This notable performance, despite silver being caught in a prolonged downturn, can be attributed to the quality of Sierra Metal's operations. The miner's production has been growing at a steady clip, rising by an impressive 42% year over year for the second quarter 2018 to 4.6 million silver equivalent ounces. During that period, Sierra Metal's reported a cash cost of US\$6.34 per silver equivalent ounce produced, which remarkably was almost 20% lower than the second quarter 2017, whereas all-in sustaining costs (AISCs) for the quarter came to US\$9.56 per ounce produced, which was a notable 29% lower year over year.

The significant improvement in operating costs can be attributed to higher ore grades, lower sustaining capital expenditures and greater silver recoveries.

It was this noteworthy operational performance coupled with firmer copper, zinc and lead prices that was responsible for Sierra Metal's strong second quarter financial results. Those robust results indicate

that Sierra Metal can achieve its 2018 guidance where it is forecasting production of 16 million silver equivalent ounces, which is 9% greater than 2017. And that in conjunction with lower operating expenses and higher base metals prices should give the miner's earnings a solid lift, which will ultimately boost its market price.

Sierra Metals is also engaged in a range of exploration and growth activities, including conducting drilling at the Yauricocha, Bolivar and Cusi mines, sinking additional shafts and expanding milling capacity. This will help to boost metal reserves as well as production over coming months and should see Sierra Metal report a notable increase in reserves at the end of 2018.

The miner continues to maintain a strong a balance sheet, ending the second quarter with almost US\$22 million in cash and total debt of just over US\$63 million, which is less than one-times 12-months trailing EBITDA. That indicates that Sierra Metals' level of debt is very manageable, which, along with a considerable amount of cash on hand and growing cash flow from operations, endows it with considerable financial flexibility.

So what?

Despite silver's latest weakness and the considerable pessimism surrounding the precious metal, Sierra Metals is positioned to [perform strongly](#) over the remainder of 2018 and into 2019. As the miner consistently reports solid results, its stock will appreciate further. If the price of silver firms, it will act as a powerful tailwind for Sierra Metals and give its market price a healthy lift.

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Author

mattdsmith

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