



Is Now the Time to Invest in This High Cost Silver Miner?

Description

The sharp decline in silver that sees the precious metal trading at below US\$15 an ounce has some pundits claiming that primary silver miners represent an appealing deep-value [contrarian investment](#). One silver miner that recently released some credible second quarter results and hasn't been garnering much attention from investors is **Endeavour Silver Corp.** ([TSX:EDR](#))([NYSE:EXK](#)).

Now what?

Endeavour owns three operational silver mines located in Mexico with total reserves of 54 million silver equivalent ounces. The miner has grown production at a steady clip reporting second quarter output of 2.4 million silver equivalent ounces, which was a 12% year over year increase. That can be attributed to increased mill throughput as well as higher ore grades, notably at Endeavour's El Cubo operation.

The profitability of Endeavour's existing operations is underscored by relatively low cash costs of US\$7.61 per ounce mined, which were 9% lower than a year earlier.

Nonetheless, all-in sustaining costs (AISCs) for the quarter of US\$17.28 were more than double the miner's cash costs, although they were 16% lower than for the same period for 2017. Such high AISCs are a concern, particularly in an operating environment where silver remains weak and the spot price is significantly lower than those AISCs.

However, that shouldn't be as worrying as it initially appears, because while AISCs are an important measure of profitability, they include all mining, processing, sales, general and administrative, exploration and reclamation costs as well as other direct overheads and sustaining capital. During prolonged slumps in silver, miners can to a degree dial down those costs to ensure that their operations remain cash flow positive and profitable.

Endeavour is also in the process of implementing a range of strategies aimed at reducing expenses to boost profitability in the current difficult operating environment. This sees the miner forecasting that full-year 2018 AISCs will come in at US\$15.50 per silver equivalent ounce, which is the mid-point of its annual guidance.

The strong second quarter production growth leaves Endeavour on target to achieve its 2018 target of 10.2 to 11.2 million silver equivalent ounces, which is around 20% greater than 2017. Such a robust expansion of its precious metals output will help to generate additional revenue that will compensate for lower silver prices.

Endeavour is also in the process of commissioning the El Compas mine in Mexico, which is expected to come online during the second half of 2018 and add up to 1 million ounces of silver equivalent production annually. It is also progressing with the development of the Terronera project, which is expected to receive its final permits during the third quarter 2018. When it commences commercial production in 2020, that project should be exceptionally profitable even if silver remains weak because it has estimated AISCs of around US\$5 per silver ounce produced.

While Endeavour needs to reduce operating expenses to be more profitable in the current operating environment, its rock-solid balance sheet enhances its appeal as an investment. The miner finished the second quarter with US\$31 million in cash and no long-term debt aside from deferred reclamation and tax liabilities totalling just over US\$9 million. This endows Endeavour with considerable financial flexibility, which will help it to survive during a protracted slump in silver.

So what?

The [poor outlook](#) for silver coupled with Endeavour's high AISCs makes it a less than appealing investment at a time when the white metal is in freefall and has plummeted to less than US\$15 an ounce.

Nevertheless, the strength of its balance sheet along with the quality of its operating mining assets, growing production and the fact that it is down by almost 9% since the start of 2018 does give it some contrarian appeal. Any uptick in the price of silver, which appears unlikely for the foreseeable future, will give its market price a healthy boost.

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Author

mattdsmith

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