



Despite Weak Silver, This Small-Cap Miner Will Soar

Description

Fears of a [trade war](#) and other geopolitical uncertainties, despite being positive catalysts for precious metals, have failed to buoy gold and silver. There are a range of reasons for this, key being rising interest rates and a stronger U.S. dollar. While Trump's heated rhetoric on trade and international relations has ratcheted up economic volatility, growth remains strong, and that points to higher interest rates and a firmer dollar, which are both bad omens for precious metals.

Regardless of the [poor outlook](#) for silver, **Fortuna Silver Mines** ([TSX:FVI](#))([NYSE:FSM](#)) provides contrarian investors with an attractive levered play on the white metal.

Now what?

Fortuna's core producing assets are the San Jose and Caylloma silver mines located in Mexico and Peru, respectively. Those mines — along with its Lindero gold project in Argentina — give Fortuna reserves of 45 million silver ounces and two million ounces of gold.

Even in a difficult operating environment, where sharply weaker silver weighed on the financial performance of many primary silver miners, Fortuna reported some solid second-quarter 2018 results. Cash flow from operations shot up by 83% year over year to US\$22 million, while EBITDA rose by an impressive 33% to US\$27 million. This saw Fortuna report quarterly net income of US\$11.2 million, which was 26% greater than the equivalent period in 2017.

The remarkable aspect of this robust performance was that for the quarter Fortuna received an average realized price of US\$16.60 per ounce of silver sold, which was 4% lower than it had been a year earlier. This can be attributed to firmer lead and zinc prices, which boosted the value of by-product credits, helping to bolster the miner's earnings and reduce operating costs.

It was for this reason that Fortuna reported remarkably low all-in sustaining costs (AISCs) net of by-product credits of US\$3.26 per ounce of silver produced. Even after excluding those credits, Fortuna's AISCs were US\$10 per silver equivalent ounce produced, which was 17% lower year over year and significantly less than the average spot price.

Firmer gold prices also gave the miner's earnings a boost, because Fortuna received an average realized price of US\$1,299 per ounce, which was 3% higher compared to a year earlier.

Those results indicate that Fortuna can generate strong earnings, despite weaker silver prices. This is because of a combination of low costs, growing silver production, and the contribution of lead as well as zinc production from the Caylloma mine. Those aspects of Fortuna's operations alone should see it deliver robust results over the remainder of 2018.

Nonetheless, what makes the miner a particularly appealing investment is its 100% ownership of the Lindero gold project located in Argentina, which is expected to commence commercial production in the second half of 2019. Over its 15-year production life the mine is forecast to produce 1.3 million ounces of gold ounces at average annual AISCs of US\$802 per ounce produced.

This will significantly boost Fortuna's earnings, especially during the first year of operation, where the mine's gold output is expected to be 137,000 ounces with AISCs of a mere US\$528 per ounce produced. In an environment where gold is trading at over US\$1,200 an ounce, this will give Fortuna's earnings a significant lift.

So what?

Fortuna's latest pullback, which sees it down by 16% over the last month, has created an opportunity for risk-tolerant investors seeking exposure to a high-quality low-cost precious metals miner. Once the Lindero mine comes online and demonstrates that it can consistently achieve the forecast level of production, Fortuna's stock will soar.

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