Regardless of the Poor Outlook for Silver, it Is Time to Buy This Miner

Description

It has been a tough year for silver investors. The white metal's value has plummeted by almost 12%, significantly impacting the fortunes of silver miners, many of which have plunged significantly in value, causing the **Global X Silver Miners ETF** to drop by a whopping 28%.

Nonetheless, not all silver miners have experienced a marked decrease in their market value. One such miner is **Fortuna Silver Mines** (TSX:FVI)(NYSE:FSM), which has seen its share price remain flat over that period.

Now what?

Fortuna owns the San Jose underground mine in Mexico as well as the Caylloma underground silver, gold, lead, and zinc mine in Peru. It is also developing the Lindero open cut gold mine located in Argentina, which is expected to commence commercial operations in late 2019 and report its first full year of production in 2020. Those assets give Fortuna mineral reserves of almost 45 million silver ounces and two million of gold.

The miner possesses considerable potential, which is why its stock has not been hit nearly as hard as many of its peers, such as **First Majestic Silver**, which has plunged by almost 13%.

Not only will the Lindero mine significantly boost Fortuna's earnings when it comes online later next year, but the miner is a low-cost operator. For the second quarter 2018, it reported all-in sustaining costs (AISCs) of US$3.26 per silver ounce mined, which was less than half of the amount reported for the equivalent period in 2017. Those low AISCs mean that even with the white metal trading at US$14.70 an ounce, Fortuna's operations are highly profitable.

Silver production for the quarter shot up by 10% year over year, while gold output remained unchanged. That higher silver production, along with Fortuna's low costs and higher by-product credits because of firmer lead and zinc prices, contributed to ensuring that Fortuna remained profitable regardless of weaker silver.

When the Lindero mine commences operations, it will further diversify Fortuna's source of income, adding around 175,000 ounces of gold to the miner's total precious metals output. That will enhance Fortuna's ability to profit from firmer gold, which, after dipping sharply in recent days, has recovered to be trading at around US$1,200 an ounce.

Another aspect of the miner's operations that significantly enhances its appeal is its robust balance sheet. Fortuna finished the second quarter with US$198 million in cash, cash equivalents, and short-term investments, which is a considerable pile of cash that bolsters its financial flexibility and ensures that it has enough capital to complete the Lindero project. The miner's long-term debt remains low with US$40 million drawn on an existing on-revolving credit facility.

Fortuna's liquidity is boosted by an additional US$80 million undrawn credit facility, which is intended to be used to fund the Lindero project and will start being drawn down during the fourth quarter 2018. Even if Fortuna fully drew down its credit facilities, the total amount of long-term debt would be less than its cash position and a very manageable one times adjusted EBITDA.

The strength of the miner's balance sheet is particularly important to note in an industry where its operating costs are higher, it's capital intensive, and where earnings can fluctuate considerably because of changes in the value of gold and silver.

So what?

Despite sharply weaker silver and the poor outlook for the white metal, Fortuna remains an attractive play on precious metals. Its Lindero mine will significantly boost income and further diversify its earnings away from silver, which should give its stock a solid lift. That would be further magnified if gold were to rally sharply because of an emerging financial or geopolitical crisis, which is quite possible given the myriad political and economic risks that exist globally.

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Author
mattdsmith