



Is it Time to Buy This Primary Silver Miner?

Description

Silver miners are being pummeled because the white metal [remains weak](#), down by 14% over the last year, which has triggered a sharp sell-off of miners, as illustrated by the **Global X Silver Miners ETF** losing a whopping 28% over that period. While the immediate future for silver appears gloomy, it shouldn't deter investors from considering primary silver miners with high-quality assets, robust balance sheets, and low operating costs. One that has caught the eye of investors is **Pan American Silver** ([TSX:PAAS](#))(NASDAQ:PAAS), which reported some solid second-quarter 2018 results.

Now what?

Among Pan American's key strengths is its low operating costs. For the second quarter 2018, it reported record-low cash costs of just under US\$1 per silver ounce produced and all-in sustaining costs (AISCs) of US\$6.45 per ounce sold, which were a notable 84% and 40% lower year over year, respectively. This highlights the considerable profitability of Pan American's producing mines. Those low costs as well as their significant decrease compared to a year earlier can be attributed to a healthy increase in by-product credit because of a significant increase in gold, lead, and zinc prices as well as production during the second quarter.

Because of the surge in by-product credits, a noticeable increase in gold production and higher realized base metal prices Pan American's earnings for the quarter soared. Mine operating earnings shot up by an impressive 22% compared to a year earlier, net cash from operating activities rose by a remarkable 56%, and adjusted net earnings soared by 59%. Pan American was able to achieve these imposing results, despite only realizing US\$16.40 per ounce of silver sold, which was almost 5% lower than the same quarter in 2017.

While there is some pessimism surrounding the outlook for the global economy primarily because of the threats posed by Trump's [trade war](#) and higher oil prices, world gross domestic product should continue to expand at a healthy clip. This will ensure that demand for base metals, notably lead, zinc, and copper, remains strong, thereby supporting their prices.

Pan American's impressive second-quarter results allowed it to revise its annual 2018 guidance,

reducing cash costs by around 17% and dialing down forecast AISCs at the top end by 8% to US\$10 per silver ounce sold. This highlights that even in the current operating environment, where silver is trading at US\$14.60 an ounce and remains weak, Pan American will be profitable and should report credible full-year results.

The primary silver miner's attraction as a contrarian investment is enhanced by its rock-solid balance sheet. Pan American ended the second quarter with considerable liquidity, including US\$250 million in cash and short-term investments as well as an undrawn US\$300 million on an existing credit facility.

Impressively, for a company operating in a capital-intensive industry that has been under pressure because of weaker silver prices, Pan American essentially has no long-term debt other than a US\$9 million finance lease. This robust balance sheet and healthy financial position endow the miner with considerable financial flexibility, equipping it to easily weather any further sustained weakness of silver.

So what?

While I am not convinced that now is the time to invest heavily in silver, Pan American presents as an attractively valued contrarian play on a precious metal that has become highly unpopular among investors. Even if sharply weaker silver continues for the [foreseeable future](#), Pan American should continue to unlock value for investors and deliver credible financial results because of its strong liquidity and low costs.

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