Is the Latest Deal the Catalyst Needed to Push This Silver Miner Higher?

Description

Weaker demand for silver sees the white metal down by 14% for the year to date, trading at less than US$15 an ounce, and its stagnant outlook is weighing heavily on primary silver miners. In an attempt to stimulate growth and expand earnings, primary silver miner **Great Panther Silver** (TSX:GPR)(NYSE:GPL) has announced that it will acquire Australian gold miner **Beadell Resources**. This US$105 million deal should act as a powerful tailwind for Great Panther.

Now what?

It is an all-stock acquisition that will see Great Panther issue almost 104 million shares and give each Beadell shareholder 0.0619 of its shares for each ordinary share of Beadell. The deal will act as a much-needed growth catalyst for the miner, which has seen its stock tumble by almost 31% since the start of 2018 because of softer silver and a lacklustre first half of 2018.

The purchase will diversify Great Panther's assets and production by adding to its portfolio the Tucano gold mine in Brazil, which is expected to become the third-largest primary gold mine in the Latin American nation. This will boost Great Panther's gold reserves by 1.5 million ounces and add up to 165,000 ounces of gold production to Great Panther's 2019 precious metals output.

Of some concern is that Beadell reported that Tucano's second-quarter 2018 all-in sustain costs (AISCs) were US$1,306 per gold ounce produced, indicating that in an environment where gold is trading at around US$1,220 an ounce, it is a costly and potentially unprofitable asset to operate.

Nonetheless, Beadell has invested heavily in improving operations at the mine, which it expects will push costs lower, allowing it to meet 2018 guidance for AISCs of US$1,000-1,100 an ounce. It is anticipated that during 2019 expenses will fall further because of the Tucano plant upgrade, which enhances its ore-processing capabilities, improves equipment, and focuses on driving even greater operational efficiencies. This could see AISCs drop below US$1,000 per gold ounce produced, which would give the mine's profitability a solid bump.

While the deal will give Great Panther's net asset value a significant lift, it will also reduce its dependence on mining silver to generate earnings. That will help to bolster earnings and reduce its exposure to silver and the white metal's stagnant outlook, which has been weighing heavily on Great Panther's market value.

There appears to be little to no upside ahead for silver because of dwindling demand and growing supply, yet gold continues to perform well. The conflicting performance of the two precious metals indicates that the traditional positively correlated relationship between them is breaking down. This is evident from the ever-widening gold-to-silver ratio, which now requires an eye-watering 83 ounces of silver to buy one ounce of gold — significantly higher than the historical average. The additional gold reserves and production that the acquisition will add reduces Great Panther's dependence on silver and will give its earnings — and its stock — a healthy boost.

Another pleasing aspect of Great Panther is its rock-solid balance sheet. It finished the second quarter with considerable liquidity, including almost US$37 million in cash and US$23 million in short-term investments. This further enhances its financial flexibility, leaving it well positioned to weather any protracted downturn in silver. It also means that Great Panther is more than capable of funding existing projects and growth initiatives while being able to undertake further opportunistic acquisitions. The acquisition of Beadell won't impact the strength of the Great Panther's balance sheet because it is an all-stock deal and the miner expects that existing working capital will be sufficient to fund the closing and integration of the deal.

So what?

Great Panther's latest deal will act as a powerful growth catalyst for the miner by diversifying its production and improving its earnings profile by reducing its dependence on silver. The miner's existing quality assets, strong balance sheet, and considerable liquidity further enhance its appeal as an investment.

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