

Is This Junior Silver Miner a Top Contrarian Play?

Description

Silver continues to wallow at under US\$15 per an ounce, while the gold-to-silver ratio has risen to a multi-decade high triggering considerable speculation that a long-awaited rally is on the way. This has sparked calls among silverbugs for investors to bolster their exposure to the white metal.

While there are signs that silver will remain stagnant for the foreseeable future, it shouldn't deter investors from considering the smaller, riskier junior mining plays that offer the potential to earn outsized returns.

One such stock is **MAG Silver Corp.** ([TSX:MAG](#))([NYSEMKT:MAG](#)), which owns a 44% interest in the Juanicipio exploration property operated by industry giant **Fresnillo Plc.** After performing admirably for some time despite weaker silver, its stock cratered at the end of June 2018 to be down by 36% for the year to date, creating an opportunity for speculative investors.

Now what?

MAG Silver's flagship asset is its 44% interest in the Juanicipio project located in the mining friendly jurisdiction of Mexico. The property has been estimated to have indicated and inferred resources of 267 million silver ounces, 1.4 million ounces of gold as well as significant amounts lead and zinc.

The mine is under development and is expected to be commissioned in mid-2020 with an estimated operational life of 19 years, which was recently confirmed by Fresnillo, the 56% owner and operator of the project.

Over its life, it is forecast that Juanicipio will produce 352 million payable silver ounces with production anticipated to average around 10 million silver ounces annually. On achieving commercial production, it is anticipated that the mine will have impressively low all-in sustaining costs (AISCs) of US\$6.13 per silver ounce produced at an assumed price for the white metal of US\$14.50 an ounce. In this scenario Juanicipio is expected to generate almost US\$1.2 billion in after-tax cash flow.

If the price of silver averages US\$17.90 per ounce, then those AISCs fall to a remarkably low US\$5.02 for each silver ounce produced. Under those assumptions the mine's after-tax cash flow over its operational life rises to almost US\$2 billion.

Such low AISCs and strong after-tax cash flow emphasizes the considerable profitability of the asset if commercial production commences and the mine operates as anticipated. It also indicates that even if [silver remains stagnant](#) and doesn't recover as strongly as some pundits are predicting over the next two years, Juanicipio will still be an exceptionally profitable operation.

Even at an average silver price of US\$14.50 an ounce, MAG Silver's share of Juanicipio's after-tax cash flow comes to an average of \$27 million annually for the life of the mine. That figure jumps to US\$46 million annually based on US\$17.90 per ounce and will climb even further should silver

appreciate over the long-term.

Such strong after-tax cash flow and the quality of the Juanicipio asset supports the average analyst price target for MAG Silver of just under \$24 a share, which is more than double the miner's current market price.

The junior miner's attractiveness is enhanced by its solid balance sheet. MAG Silver is debt free and ended the second quarter 2018 with US\$151 million in cash, which is more than adequate for it to meet its share of immediate funding obligations for the ongoing development of the Juanicipio project.

The involvement of Fresnillo, which is one of the world's largest silver miners, as the majority owner and operator of the project eliminates much of the risk associated with executing the mine's development.

So what?

Even if [weaker silver](#) continues for the foreseeable future, MAG Silver is an appealing investment, particularly after losing 25% of its market value over the last year. This has created an opportunity for investors to acquire exposure to a quality silver miner that could easily double in value once commercial production at the Juanicipio mine successfully commences in 2020.

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