

Which 2 Things Will Cause a Rally in This Silver Stock?

Description

Pan American Silver ([TSX:PAAS](#))(NASDAQ:PAAS) has been one of the better-performing precious metals miners. While most of the stocks of its peers have gone down 20% or more in the last year, its stock price has only declined about 11%.

Let's explore the dynamics that drive Pan American Silver's performance.

The business

Pan American Silver is primarily a silver miner and is the second-largest of its kind in the world. So, higher silver prices will benefit the company's top and bottom lines.

Are you bullish on silver?

If you're bullish on silver, Pan American Silver is a good stock to consider. The company boasts low-risk production growth and low-cost production with cash costs of US\$2.45 per ounce and all-in sustaining costs per silver ounce sold of US\$9.21 so far this year, while silver prices have remained at about US\$14 per ounce lately.



Image source: Getty Images

Recent performance

Although silver prices have been weak, Pan American Silver remains profitable with a recent net margin of 14.7%. In the first nine months of the year, the silver producer achieved revenue growth of 3.4% to US\$611.1 million, net earnings per share growth of about 2% to US\$0.48, and adjusted earnings per share growth of about 11% to US\$0.40 compared to the same period in 2017.

In the period, Pan American Silver generated net cash from operating activities that were more than enough to cover for sustaining and project capital spending, with about 27% or US\$39.7 million left for other uses, including paying out its dividends. Currently, the stock yields about 1%.

Company forecasts

Pan American Silver primarily produces silver, but it also produces byproduct gold, zinc, lead, and copper. Its latest production guidance for this year is 25-26.5 million ounces of silver, 175-185 ounces of gold, 60-62 thousand tons of zinc, 21-22 thousand tons of lead, and nine to 10.4 thousand tons of copper. The guidance aligns with that from January, except for a roughly 21% reduction for copper production based on the midpoint.

This means that the top and bottom lines of Pan American Silver relies on higher prices of the underlying commodities and its production costs. Notably, silver, along with gold, will be the key contributors to Pan American Silver's top line, as the company estimates to generate about 45% of revenue from silver, 26% from gold, and 17% from zinc.

Recent news

In mid-November, Pan American Silver announced to acquire [Tahoe Resources](#), which was down in the dumps, as its licence to operate the Escobal silver mine was suspended. Pan American Silver can wait for the restart of that mine, as it has six other operating mines to keep the company going.

Pan American Silver is paying about 4.5 times cash flow for Tahoe based on its normal operations, which is very cheap compared to the multiple of 10.5 that the company is trading at. The Escobal mine is an excellent addition to Pan American Silver's already diversified portfolio, and the company just needs to work on getting the mine started again.

Investor takeaway

[Pan American Silver](#) is a well-run miner that primarily produces silver. It has a clean balance sheet and ample liquidity. Once the Escobal mine resumes normal operations, it will be a great contributor to Pan American Silver's top and bottom lines.

Bank of Nova Scotia believes that there's more than 30% upside for the stock over the next year. Higher gold and silver prices or the restart of the Escobal mine will be great news that will send the stock higher.

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