

Ignore Weaker Silver and Buy This Attractively Valued Silver Miner

Description

Despite gold firming of late, silver continues to languish at below US\$15 per ounce, triggering considerable speculation that the white metal may [never recover](#). This has had a sharp impact on primary silver miners, causing many to fall substantially in value since the start of 2018. While the poor outlook for the white metal bodes poorly for many silver miners, it shouldn't deter contrarian investors from taking a position in **Silvercorp Metals Inc.** ([TSX:SVM](#))(NYSE:SVM).

Now what?

Since commencing operations in China in 2003, Silvercorp has become the nation's premier primary silver producer, owning six mines with combined reserves of 106 million silver ounces as well as 511,000 tons of lead and 265 tons of zinc. Regardless of sharply weaker silver, it announced some credible fiscal second quarter 2019 results. These included a 17% year over year increase in the volume of silver ounces sold, while ounces of gold sold shot up by 25% and the volume of lead sold was 15% higher. That helped to offset the difficult operating environment caused by sharply weaker silver and base metal prices.

While revenue rose by 1% compared to a year earlier to be US\$48 million net income plunged by 28% to US\$5 million. This decline can be attributed to a combination of weaker silver prices and higher operating expenses.

Fiscal second quarter all-in sustaining costs (AISCs) spiked by 12% compared to the equivalent period in 2017 to US\$2.54 per silver ounce sold, primarily because of lower by-product credits caused by softer lead and zinc prices. Despite the increase in AISCs, Silvercorp is still one of the lowest cost operators in its industry, thereby underscoring the quality and profitability of its operations.

Nonetheless, Silvercorp's fiscal third quarter results should improve because of the miner's focus on controlling expenses and the fact that silver is trading at US\$14.69 per ounce, which is 19% higher than the average realized price for the precious metal during the fiscal second quarter. Base metals have also firmed in recent weeks because of an increasingly positive outlook for the global economy, which is caused by signs that the prospects of a full-blown trade war between the U.S. and China are easing.

Unlike many of its similar-sized peers, Silvercorp remains in solid financial shape with a rock-solid balance sheet, which will further mitigate the impact of weaker silver prices on its operational and financial performance. Silvercorp finished the fiscal second quarter with US\$124 million in cash and short-term investments, 17% higher than at the end of the same period in 2017 while continuing to remain debt free.

The miner is also focused on enhancing value for investors by reducing the volume of shares outstanding because management believes that the current market price doesn't correctly represent Silvercorp's indicative fair value. Since early 2015, the miner has reduced its share float by around 2%

to 168 million shares outstanding through a series of buybacks.

Silvercorp also remains very attractively valued based on a range of multiples, including an enterprise value of a mere 2.3 times its silver reserves and a price of 1.1 times its book value. These ratios are significantly lower than many of its peers, thereby indicating that there is considerable upside ahead for investors despite the [stagnant outlook](#) for silver.

So what?

Silvercorp is a very attractively valued means for investors to bolster their exposure to precious metals. While they wait for its stock to appreciate, they will be rewarded by its regular and sustainable dividend yielding just over 1%.

CATEGORY

1. Dividend Stocks
2. Investing
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Date

2025/08/24

Date Created

2018/12/11

Author

mattsmith

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