# Weaker Silver: Now's the Time to Buy This Miner

## Description

It has been a tough year for silver miners because of sharply weaker silver and the stagnant outlook for the white metal. Despite gold soaring in recent weeks because of growing uncertainty regarding the outlook for the global economy, silver remains trading below US$15 per ounce. This has seen the gold-to-silver ratio widen to require 86 ounces of silver to purchase a single ounce of gold.

That ratio is well above the long-term average, and according to some pundits, indicates that silver is heavily undervalued relative to gold, making now the time for investors to bolster their exposure to the precious metal.

While silver does appear undervalued its outlook remains poor. Despite the negative sentiment surrounding silver, small cap miner **Sierra Metals Inc.** (TSX:SMT)(NYSEMKT:SMTS) is shaping up as an appealing contrarian play on precious metals. It has pulled back sharply because of weaker silver, losing 22% for the year to date compared to around 14% for silver, leaving it attractively valued.



**Now what?**

Sierra Metals owns and operates three mines, two of which are in the mining friendly jurisdiction of Mexico and the other in Peru. Those properties give the miner considerable reserves composed of 19 million silver ounces, 213,000 ounces of gold, 388 million pounds of copper, 151 million pounds of lead and 477 million pounds of zinc.

For the third quarter, 2018 Sierra Metals reported solid production growth with silver equivalent ounces produced rising by 17% year over year to 4.4 million ounces. The key drivers of that expansion in production was a sharp uptick in the volume of silver and gold produced, which expanded by 44% and 26%, respectively.

Impressively, Sierra Metals operating costs fell significantly during the quarter. Cash costs per silver equivalent ounce produced were 3% lower year over year to US$7.38, while all-in sustaining costs (AISCs) dropped by a stunning 23% to US$10.21 per ounce sold.

That's a significant achievement in a difficult operating environment where softer silver prices will remain for the foreseeable future. The notable decrease in AISCs can be attributed to higher ore grades and recovery rates along with lower sustaining expenditures for Sierra Metals' mines.

In spite of the substantial decline in the price of silver, Sierra Metals reported that EBITDA only decreased by 3% year over year to US$18.2 million, while net income was almost US$2 million compared to a loss of US$6.5 million a year earlier.

With cash costs of less than US$8 per silver equivalent ounce produced, Sierra Metals will remain profitable even in the current harsh operating environment where silver is trading at US$14.76 per ounce.

Those credible third quarter results mean that the miner is on track to achieve its full-year 2018 guidance.

What makes Sierra Metals stand out in the harsh business environment is its solid balance sheet. It finished the third quarter with US$29 million in cash, which was 22% greater than the equivalent period for 2017. The miner only has US$30 million in long-term debt, which is less than a third of Sierra Metals' trailing 12-month adjusted EBITDA, indicating a very manageable level of debt.

**So what?**

Silver miners have certainly fallen into disfavour with the market. While there is no sign of the current slump ending anytime soon, it has created an opportunity for contrarian investors to acquire quality silver miners like Sierra Metals at bargain basement prices. The miner is well positioned to weather the current downturn and will soar once silver recovers.



**CATEGORY**

1. Investing
2. Metals and Mining Stocks

**TICKERS GLOBAL**

1. TSX:SMT (Sierra Metals)

**PARTNER-FEEDS**

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

**Category**

1. Investing
2. Metals and Mining Stocks

**Date**
2025/09/05
**Date Created**
2018/12/24
**Author**
mattdsmith