



This Silver Miner Is Poised to Soar in 2019

Description

Gold rallied strongly in recent weeks, buoyed by growing fears that an emerging global economic downturn and that a market correction was due. The yellow metal is now hovering at around US\$1,280 an ounce, and there are signs that it could move higher during 2019.

Silver also spiked, rising to over US\$15 per ounce, which will be a boon for silver miners weighed down by the [poor outlook](#) for the white metal. This makes now the time to acquire **Fortuna Silver Mines** ([TSX:FVI](#))([NYSE:FSM](#)), which has gained over 13% for the year to date. The key reason for this surprisingly is not silver's recent gains, but rather firmer gold and the prospect that it could break through the US\$1,300-an-ounce mark in coming months.

Lindero gold mine will boost earnings

Aside from owning the San Jose and Caylloma mines, Fortuna is also developing the Lindero gold project in Argentina. That mine has reserves of 1.7 million gold ounces, at the end of October was 26% complete, and is scheduled to commence production during the third quarter 2019. First-year annual gold output is expected to be 137,000 ounces with all-in sustaining costs (AISCs) of US\$528 per ounce produced. Those low AISCs illustrate the operation's considerable profitability.

In an operating environment where gold remains firm and is trading at close to US\$1,300 an ounce, the commencement of commercial production at Lindero will give Fortuna's earnings a healthy boost. It will also reduce its dependence on silver, thereby minimizing the impact of the stagnant outlook for the white metal on its financial performance.

Fortuna also possesses considerable exploration upside at its existing properties as well as through its strategic investments in Medgold Resources and Prospero Silver, where it has a 22% and 27% interest, respectively.

Silver's recent rally will also bolster Fortuna's earnings. The white metal, while still down by 10% for the year to date, is trading at US\$15.43 per ounce, which is 4% higher than Fortuna's average realized price of US\$14.80 per ounce for the third quarter. If silver remains firm and keeps trading at above

US\$15 an ounce, then the miner's 2019 earnings will grow.

Fortuna's AISCs for its San Jose and Caylloma operations for the third quarter were US\$10.80 per silver equivalent ounce produced, highlighting that it can remain profitable even if silver remains at current prices.

Solid balance sheet

The miner possesses a solid balance sheet, which reduces the risks posed by weaker silver. Fortuna ended the third quarter with long-term debt of US\$40 million, which was less than half of its trailing 12-month operating cash flow and 0.5 times EBITDA, indicating that level of debt is very manageable.

Fortuna also has US\$80 million available on an existing credit facility and US\$55 million in cash. This significant degree of liquidity reduces the risks associated with silver remaining caught in a long-term slump, which some analysts believe to be the case. It also means that Fortuna has enough capital available to fund the Lindero project and ensure its completion, thereby reducing much of the execution risk associated with bringing that project to commercial production.

Why buy Fortuna Silver?

Fortuna is an attractive contrarian play on higher silver, and when its Lindero gold mine commences production, the miner's earnings will surge, especially if gold soars to around US\$1,300 an ounce. Higher gold [during 2019](#) is likely because of growing uncertainty, increased economic volatility, and rising geopolitical risk because of Trump's erratic presidency. That means Fortuna's stock will soar in coming months, as it unlocks further value for investors.

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Author

mattdsmith

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