



Should Investors Ignore the Poor Outlook for Silver and Buy This Junior Silver Miner?

Description

The latest gold rally, which sees the yellow metal trading at over US\$1,280 per ounce, has helped to lift heavily beaten down silver higher to US\$15.70 an ounce. That has provided some respite for silver miners, who have seen their financial performance impacted by sharply weaker silver prices since the price of the white metal collapsed in mid-2018.

One silver miner that appears increasingly unappealing in the current operating environment is **Silver Bear Resources Plc.** ([TSX:SBR](#)), which has been heavily marked down by the market seeing it lose almost 38% over the last year. This is despite the fact that some analysts believe that it now presents as an attractively valued opportunity to gain exposure to its high-grade mining assets and an improved outlook for silver.

Now what?

Silver Bear is developing the Mangazeisky project located in far eastern Russia. The ore body being developed is rated as one of the largest highest-grade silver deposits ever discovered. It has been assessed to have reserves of over 22 million silver ounces with an average grade of an impressive 809 grams of silver per ton of ore (g/t). That ore grade is significantly greater than any of the highest-grade silver mines currently operating globally, making Silver Bear the world's highest-grade silver miner.

The open pit mine is currently operational and producing silver, but has yet to be fully completed and ramped up to steady-state commercial production. For the third quarter 2018, Silver Bear reported a net loss of \$7 million compared to a \$568,727 profit for the equivalent period in 2017.

The miner has been attracting considerable negative commentary from analysts. A combination of delays, cost blowouts, and weaker silver are all fueling considerable pessimism over Silver Bear's ability to successfully execute the Mangazeisky project and commence steady-state commercial production. The miner's substantial amount of long-term debt totalling \$150 million at the end of the third quarter is magnifying these rising worries.

Investors also must consider the difficulties associated with operating in far eastern Russia. The climate in winter is highly inhospitable, making it difficult to sustain operations, while the degree of geopolitical risk associated with the jurisdiction is extreme.

So what?

Taken at face value, Silver Bear is a highly attractive play on silver because of the high quality of its flagship Mangazeisky project and stellar ore grades. There is also considerable exploration upside associated with its properties, which means that Silver Bear's silver reserves will continue to expand at a healthy clip.

Nonetheless, growing execution risk, its heavily levered balance sheets, and ongoing delays with achieving commercial production highlight the hazards associated with investing in the company. When those are considered in conjunction with the uncertain and volatile outlook for silver the miner shapes up as a risky and unattractive investment.

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Author

mattsmith

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