Is 2019 the Year First Majestic Silver Corp. (TSX:FR) Will Shine?

Description

Silver's latest rally, which sees the metal up by over 12% from 2018 lows to be trading at US$15.65 per ounce, has sparked considerable speculation that 2019 is the year that the precious metal will shine. This has breathed life into primary silver miners like **First Majestic Silver** (TSX:FR)(NYSE:AG), which has gained a remarkable 17% over the last month. That — along with an improving outlook for precious metals, notably gold, and rising uncertainty over the health of the global economy — has seen investors flock to precious metals miners.

Solid results

While the outlook for silver is not as positive as some pundits believe, there are signs that many miners, including First Majestic, were oversold after the white metal plunged to under US$14 an ounce in 2018. This has created an opportunity for contrarian investors to benefit from a short-term bounce in silver prices.

First Majestic completed the accretive US$320 million acquisition of fellow silver miner Primero Mining in early 2018. This added the San Dimas silver/gold mine in Durango Mexico to its portfolio of precious metal mining assets. That resulted in First Majestic reporting record silver equivalent production of 6.7 million ounces for the third quarter 2018, which was a stunning 69% higher than a year earlier.

Even weaker silver, which averaged US$14.66 per ounce over the quarter and was 14% lower year over year, did little to dent the miner's profitability. Net income for the period was US$5.9 million compared to a loss of US$1.3 million a year earlier. That can be attributed to a combination of factors, including low cash costs, which, at US$6.85 per silver ounce produced, were 16% lower than the third quarter 2017, underscoring the profitability of First Majestic's mining operations.

All-in sustaining costs (AISCs) fell by 2% to US$15.12 per ounce; while higher than the average price of silver for the third quarter, this shows that the miner is working on reducing expenses, including the costs of sustaining its operations. Those AISCs should continue to fall as First Majestic implements further operational efficiencies and reduces non-critical capital expenditures because of the difficult operating environment. That — along with the latest silver rally — will give First Majestic's earnings a healthy lift.

The expectation among analysts is that silver will firm further during 2019. This is not because of any improvement in the underlying fundamentals for the white metal, but rather because gold will rally further, lifting silver with it because of the correlation between the two precious metals.

First Majestic also recently announced that it was proceeding with an equity raising, where it is seeking to raise up to US$50 million. It intends to use the proceeds of this offering to fund the development of existing assets and bolster working capital. That will allow it to maintain a solid balance sheet. At the end of the third quarter, First Majestic had US$72 million in cash and long-term debt totalling US$147

million, which is a very manageable 1.7 times operating cash flow. By strengthening its balance sheet, First Majestic will be well placed to weather any sustained down turn in silver while having considerable capital on hand, which it can invest in developing its mines to take advantage of higher silver should the current rally continue.

Is it time to buy First Majestic?

Recent moves by First Majestic to bolster its working capital and strengthen its balance sheet — along with growing production and the fact that it has been heavily marked down by the market — make it an attractively valued contrarian play.

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mattdsmith

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