

Get Ready for This Silver Miner to Soar Despite the Poor Outlook for Silver

Description

Despite gold firming since November 2018 to be trading at over US\$1,280 an ounce, its poorer cousin silver [continues to languish](#) at under US\$16 per ounce. This is weighing on silver miners particularly when the stagnant outlook for the white metal is accounted for. However, that shouldn't deter investors from buying **Fortuna Silver Mines Inc.** ([TSX:FVI](#))([NYSE:FSM](#)).

Solid operational performance

The miner, which owns the San Jose mine in Mexico and Caylloma mine in Peru recently reported some solid 2018 operational results, underscoring the quality of its operations. Full-year silver and gold production exceeded the miner's annual guidance by 7% and 12% respectively. Total 2018 silver output of 8.9 million ounces was 5% greater than a year earlier. This was driven by a notable increase in ore grades mined at Fortuna's San Jose mine, which for the year averaged 260 grams of silver per tonne of ore extracted (g/t) compared to 238 g/t in 2017. That notable production growth will go some way to mitigating the impact of weaker silver on Fortuna's earnings.

For 2019, the miner expects silver production from continuing operations to rise by just over 1% to 9 million ounces while gold output will remain essentially flat. Consolidated all-in sustaining costs (AISCs) are forecast to be US\$9.90 to US\$12.10 per silver equivalent ounce produced, indicating that even if silver remains weak Fortuna's operations are profitable.

Growing gold production

What makes Fortuna a compelling and extremely attractive precious metals miner to acquire is its Lindero gold project in Argentina. The mine is expected to be commissioned and commence production during the third quarter 2018. Lindero is an open pit heap leach gold mine with reserves of 1.7 million gold ounces and forecast AISCs of US\$802 per gold ounce produced. During its first year of operation, the mine is expected to add 137,000 ounces of gold to Fortuna's total metals production. That will give the miner's earnings a healthy boost, particularly with gold trading at over US\$1,281 an ounce.

There is every likelihood that the yellow metal will firm further, with analysts taking a bullish view on the outlook for gold for 2019. Commodities economists at Capital Economics predict that gold will finish the year at US\$1,350 and silver will appreciate to US\$17.50 per ounce. While I believe the forecast for silver appears [overly optimistic](#) because of weaker industrial demand for the white metal, US\$1,350 an ounce gold is [quite feasible](#), especially with many investors bolstering their exposure to the yellow metal to hedge against growing global uncertainty.

That would help to propel Fortuna's earnings significantly higher. Even at current prices, 137,000 ounces of annual gold production would add anywhere up to US\$66 million in mine operating income to Fortuna's yearly earnings. This will act as a powerful tailwind for its stock, and there are signs that Fortuna will soar potentially doubling if Lindero delivers as forecast and gold firms further. Its existing

gold and silver reserves alone, after allowing for costs and debt, have a net-present-value (NPV) of around \$8 per share that's 1.7 times greater than Fortuna's current price.

There is also considerable potential exploration upside at Lindero, where Fortuna has embarked on an extensive drilling program, having completed 2,178 metres during the third quarter 2018 alone.

Is it time to buy Fortuna?

On commissioning, Lindero will significantly boost Fortuna's gold production, thereby reducing its dependence on silver and reducing the impact of the poor outlook for the white metal on its finances. When this is considered in conjunction with the quality of its San Jose silver mine and long-term debt totalling US\$40 million (roughly a mere 0.5 times EBITDA), the miner is an appealing play on higher gold.

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