Is It Time to Buy This Beaten-Down Silver Miner?

Description

The last year was a harrowing time for investors in one-time investor darling **Great Panther Silver Ltd.** (TSX:GPR)(NYSEMKT:GPL). The intermediate silver miner saw its market value collapse dramatically in mid-2018, seeing it down by a whopping 41% over the last year compared to around 13% for silver. While considerable doubts exist about Great Panther's ability to improve its performance in the current difficult operating environment, it has created an opportunity for investors seeking an attractively valued contrarian investment.

Why the sharp decline?

Great Panther's problems aside from sharply weaker silver prices are centered on declining production and rising costs, which point to some of its operations being uneconomic to operate. For the full year 2018, company-wide production rose by 15% year over year to 4.2 million silver equivalent ounces. That increase was driven by a marked uptick in lead as well as zinc production, which rose by 52% and 34%, respectively. Silver as well as gold output for the period fell by 6% and 10% to 1.9 million silver ounces and 20,161 gold ounces, respectively.

This meant that Great Panther was unable to benefit from higher gold prices, especially during the fourth quarter 2018, when the volume of gold ounces mined fell by 31% year over year to 4,101 ounces.

It is also likely that upon reporting its 2018 results that all-in sustaining costs (AISCs) will be high. For the third quarter, Great Panther's AISCs per silver equivalent ounce produced shot up by 3% compared to the same period in 2017 to a worrisome US$16.86, 17% greater than the average realized price for silver over the quarter of US$14.45 per ounce. Those AISCs are also 6% higher than the current spot price of US$15.85 per ounce, thereby indicating that Great Panther is making a loss on every silver ounce it produces. That doesn't bode well for fourth quarter 2018 profitability or the miner's 2019 outlook.

Declining 2019 production also doesn't bode well for Great Panther's performance over the course of the year. It recently announced as part of its 2019 guidance that full-year silver equivalent production would be 3.7 million to 4 million ounces, representing a 4% decrease at the upper end compared to 2018.

Nonetheless, on a positive note, Great Panther does anticipate that AISCs will improve, forecasting US$10 to US$12 per silver equivalent ounce produced, which even after including estimated general and administrative expenses won't exceed US$15 an ounce. That along with firmer silver and analysts expecting the white metal to average around US$16 per ounce during 2019, will boost Great Panther's profitability and earnings.

While the miner's overall performance from its existing operations will remain subdued, it is the acquisition of Australian gold miner **Beadell Resources Ltd.** which owns the Tucano gold mine in northern Brazil that will give it a solid boost. The Tucano mine is a combined open pit and underground operation with gold reserves of almost 1.3 million ounces and mineral resources of 3.2 million gold ounces. Beadell also owns the evaluation stage Tartaruga gold project in Brazil, which has inferred resources of 337,000 ounces.

The deal, which is on track to be completed in February, will be highly beneficial for Great Panther because it will further diversify its production and earnings hence reducing its dependence on silver. It also positions the miner to better benefit from higher gold, which many analysts believe has entered a new bull market and will reach as high as US$1,350 an ounce during 2019.

The market, along with failing to recognize the considerable benefits that deal offers Great Panther is also ignoring its rock-solid balance sheet. Great Panther finished the third quarter with considerable liquidity holding US$58 million in cash and short-term investments. Unlike many of its peers, the company has no long-term debt. That means Great Panther is well positioned to complete the Beadell acquisition, and if necessary, weather a protracted downturn in silver while still funding the development of its core mining properties.

Why buy Great Panther?

The miner is a risky contrarian investment, but the latest sell-off has created a handy entry point for risk tolerant investors willing to bet on Great Panther's ability to turn around its operations and capitalize on the acquisition of Beadell's gold mining assets. That deal, along with an improved outlook for gold and lower production costs, will give Great Panther's earnings a healthy lift, which should over time propel its stock higher.

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