



## Is This Junior Silver Miner a Risky Investment?

### Description

The outlook for silver remains poor with weak fundamentals, including declining industrial consumption and an emerging supply glut weighing on its price. While silver has gained 2% since the start of 2019 to trade at US\$15.74 an ounce, many producing primary silver miners have lagged, with some, including **First Majestic Silver**, losing over 4%. Regardless of larger silver miners with operational assets being marked down by the market, many junior development-stage silver miners are experiencing solid gains. One is **MAG Silver** ([TSX:MAG](#))(NYSE:MAG), which has appreciated by 13% since the start of 2019, and there are signs that it has further to rally.

### Quality flagship asset

MAG Silver's flagship asset is its joint venture Juanicipio project in Mexico. The junior miner has a 44% interest in **Minera Juanicipio S.A. de C.V.**, which is the locally incorporate entity responsible for developing the property. The remaining 56% is owned by the world's largest silver producer **Fresnillo Plc**. The project endows MAG Silver with indicated and inferred mineral resources of 267 million silver ounces and 14 million gold ounces as well as over 3.6 billion combined pounds of lead, zinc, and copper.

The impressive economics of the project and its considerable profitability, even if silver remains weak, are underscored by Juanicipio's low estimated all-in sustaining costs (AISCs) of US\$5.02 per silver ounce produced over its 19-year life. The mine's forecast life of mine cash costs of US\$2.39 per silver ounce produced are even lower, indicating that it will generate solid cash flow, even if silver [remains weak](#).

The mine is forecast to commence production in mid-2020, producing 16.5 million silver ounces annually for the first six years.

It is also likely that as drilling at Juanicipio continues, the volume of resources and the project's economics will improve. By the end of the third quarter 2018, over 46,000 metres of drilling had been completed as part of the current exploration program. There is every likelihood that this will lead to an

updated improved preliminary economic assessment for Juanicipio with all assays at the time of the preparation of MAG Silver's third-quarter report pending. Any improvement in mine economics will act as a powerful tailwind for the junior miner's stock.

## Risk is lower than perceived

The geopolitical risk associated with the project is minimal because it is located in relatively stable, mining-friendly Mexico. The involvement of Fresnillo in the project mitigates much of the execution and development risk because of the miner's considerable resources, scale, and expertise.

A notable aspect of MAG Silver, which substantially boosts its attraction and reduces much of the investment risk, is its robust balance sheet. It finished the third quarter 2018 with US\$142 million in cash and no debt. That — along with the relationship with Fresnillo — considerably reduces the hazards associated with developing Juanicipio and makes it relatively easy to obtain additional financing to cover cost blowouts.

## Why buy MAG Silver?

The outlook for silver is not [particularly favourable](#), but analysts tip that the white metal will move higher during 2019 because of its closely correlated relationship with gold. The yellow metal is forecast to move higher because of growing economic and geopolitical uncertainty, which has triggered a flight to safety among investors. MAG Silver is an ideal levered play on silver, which will appreciate at a far greater rate than the underlying precious metal, giving investors the opportunity to earn outsized returns.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

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