



## Buy This Silver Miner to Benefit From Silver's Next Rally

### Description

Are you looking to make outsized returns by investing in an [unpopular cyclical asset](#) that appears to have bottomed? Then look no further than **Silvercorp Metals Inc. (TSX:SVM)**(NYSE:SVM), which has gained 6% since the start of 2019 and appears poised to soar higher.

### Quality assets

Silvercorp, a leading primary silver miner in China, reported some solid fiscal third quarter 2019 results despite weaker metals prices. Its flagship operation is Ying Mining District that contains four mines that in conjunction with the Gaocheng silver-lead-zinc mine give Silvercorp reserves of 106 million silver ounces, 512,000 tonnes of lead and 265,000 tons of zinc.

While the volume of ore mined rose by a mere 3% year over year, the amount of silver and gold sold by Silvercorp during the quarter rose by a notable 13% and 57% to 1.7 million and 1,100 ounces, respectively. This, however, was not enough to offset the impact of significantly softer precious and base metal prices on the miner's financial performance. And that, along with higher all-in sustaining costs (AISCs), which more than doubled compared to a year earlier to US\$6.53 per ounce produced, saw Silvercorp report weaker financial results.

The impact of lower average realized sale prices for silver, lead and zinc when compared to 2017 was significant, as they fell by 8%, 9% and 29% year over year, respectively. This saw cash flow from operations plunge 29% to US\$19.5 million, while net income dropped by a worrying 31% to US\$8.7 million.

Nevertheless, higher AISCs and a poorer financial performance were the direct results of challenging operating environment where silver and base metals prices had softened considerably. They certainly weren't the result of operational failings, as evidenced by higher recovery rates during the third quarter despite slightly lower head grades for silver lead and zinc.

## Robust balance sheet and considerable liquidity

Silvercorp finished the third quarter in solid financial shape. Cash and cash equivalents shot up by US\$19 million compared to the end of fiscal 2018 year to US\$68 million, while short-term investments totalled US\$57 million, giving the miner available cash of US\$125 million. While that considerable liquidity underscores the strength of Silvercorp's balance sheet it is the lack of long-term debt, which truly makes it a standout.

Such significant liquidity and the absence of debt endows the miner with considerable financial flexibility, including the ability to continue investing in developing its mines as well as being able to weather a sustained slump in silver.

## Why buy Silvercorp?

Despite the quality of its assets, including the high-grade ore at the Ying mining district, where head grades for the third quarter 2019 averaged a stunning 296 grams of silver per ton of ore extracted and rock-solid balance sheet, Silvercorp remains undervalued. The miner has an enterprise value of less than three times its proven and probable silver reserves, significantly lower than many of its peers. When this is considered in conjunction with its low costs, the improved [outlook for silver](#) — which now sees the precious metal trading at around US\$16 an ounce combined with a rock-solid balance sheet — make Silvercorp an attractive play on firmer silver.

### CATEGORY

1. Investing
2. Metals and Mining Stocks

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