



Time to Load Up on This Primary Silver Miner

Description

While silver has followed gold higher in recent weeks to be up by 3% since the start of 2019 and trading at around US\$16 an ounce, many primary silver miners have failed to rally. **Pan American Silver Corp.** ([TSX:PAAS](#))(NASDAQ:PAAS), which recently completed the takeover of **Tahoe Resources Inc.**, is down by 3% over the same period, creating an opportunity to acquire the world's premier silver miner at an attractive valuation.

Quality assets

Late last week Pan American reported mineral reserves of 280 million silver ounces at an average grade of 97 grams of precious metal per ton of ore (g/t). It also announced gold reserves of 1.7 million ounces with an average grade of 0.79 g/t. Those reserves don't include the addition of Tahoe Resources assets to Pan American's operations. The miner also announced some impressive drilling results, including a major discovery at its La Colorada mine in Mexico, which has yet to be reported into Pan American's reserves reporting.

Credible results

The primary silver miner recently reported some solid 2018 results. While silver output fell by 1% year over year to 24.8 million ounces, gold, zinc and lead production all rose. The miner also reported its lowest cash costs of US\$3.35 per silver equivalent ounce produced since 2006, highlighting the profitability of its operations even if silver remains weak for a sustained period. Those cash costs were 26% lower than 2017 while Pan American's all-in sustaining costs fell by almost 1% to US\$10.73 per ounce sold.

This helped to boost the miner's profitability amid a difficult operating environment where silver prices remained soft. Because of sharply weaker silver, Pan American's 2018 net earnings declined significantly to US\$12 million, which was a tenth of the US\$123.5 million reported a year earlier. Aside from softer silver, higher production as well as depreciation and amortization costs along with a US\$28 million impairment charge and US\$10.2 million in transaction costs contributed to the decline in net earnings. The impairment arose because of Argentina's new export tax and weaker metals prices that

negatively affected Pan American's mines located in the South American nation. The transaction costs relate to the primary silver miner's takeover of Tahoe.

Pan American announced on Friday that it has completed the US\$1 billion acquisition of Tahoe. This has significantly bolstered Pan American's mineral reserves, seeing them double to 1.2 billion silver equivalent ounces, which are 48% weighted to silver, 33% to gold and the remaining 19% to copper, zinc and lead. That deal gave Pan American's gold reserves and production a solid lift, reducing its dependence on silver and allowing it to benefit from firmer gold while mitigating the impact of the [stagnant outlook](#) for the white metal.

While gold has performed solidly since the end of 2018 to be trading at over US\$1,320 an ounce silver remains weak because of poor fundamentals including lower than expected industrial consumption as well as lower demand for bullion. Analysts also expect gold to firm further over the remainder of 2019, buoyed by a more dovish policy from the Fed on interest rates and flight to safety among investors because of rising geopolitical risk as well as economic uncertainty.

Could be the catalyst required to reopen Escobal

The market has yet to factor in the considerable value added by the acquisition of Tahoe. Not only does it bolster Pan American's production, notably of gold, but there is the likelihood of Escobal, the world's third-largest silver mine that's been [shuttered](#) since July 2017, recommencing production. Guatemala's Constitutional Court has issued a plan which, if successfully executed by Pan American, would allow the mine to be reopened.

Given the poor history associated with Tahoe's operations in Guatemala, a change of ownership could be the catalyst needed to gain the required social licence and restart Escobal. If that mine recommences commercial operations, it would boost Pan American's reserves by 264 million silver ounces and add around 20 million ounces of silver to its total metals' output. That would give Pan American's earnings a significant lift and act as a powerful tailwind for its stock.

It is for these reasons that investors should make a contrarian bet on Pan American despite the poor outlook for silver.

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