



This Silver Miner Is Attractively Valued = Buy It Now

Description

After a lacklustre 2018 that saw silver plunge to under US\$14 per ounce, the white metal has recovered following higher gold, recently breaking through the psychologically important US\$16 an ounce mark. While silver's outlook is [poor](#), this shouldn't deter investors from boosting their exposure to the precious metal because there are signs it is poised to move higher in coming months. An attractive play on higher silver and gold offering an opportunity for outsized returns is **Fortuna Silver Mines Inc.** ([TSX:FVI](#))([NYSE:FSM](#)).

Operational incidents weigh on market value

After a woeful end to last year and poor start to 2019, the miner has lost 14% over the last year, creating an opportunity for investors to acquire an up-and-coming miner at an attractive valuation. Fortuna's problems began with heavy seasonal rains in Mexico, causing a contingency pond at its tailing facilities for the San Jose mine to overflow, while heavy rains delayed construction activities at its Argentina Lindero gold project. The Mexican environmental regulator however found that there was no soil contamination at San Jose; hence, Fortuna is not required to engage in costly remediation activities.

The damage caused by heavy rains to infrastructure at the Lindero site has been repaired, although Fortuna was forced to extend several construction milestones. This means that the first gold pour won't occur until the end of 2019, with commercial production delayed until early 2020. That damage has also triggered cost overruns that see total construction costs for the mine now anticipated to be US\$295 million, US\$56 million greater than the initial US\$239 million budgeted in Fortuna's initial September 2017 guidance.

Based on its third quarter 2018 [results](#), Fortuna has enough capital available to meet the additional funding requirements, ending that period with almost US\$177 million in cash and short-term investments. Despite having funded 88% of the direct capital required to complete Lindero, Fortuna only has US\$40 million in long-term debt, less than 0.5 times its trailing 12 months operational cash flow. This indicates that it is relatively easy for the Fortuna to obtain further debt financing to fund the

completion of Lindero if required, although that's unlikely given the considerable amount of cash on hand.

These incidents highlight the considerable hazards associated with mining activities and the risks that they can pose to a miner, but there has been no long-term or significant damage to Fortuna's operations.

Solid 2018 operational performance

It wasn't all bad news for investors, with Fortuna delivering a strong operational performance, beating its 2018 production guidance. Silver output of 8.9 million ounces was 7% greater than its annual forecast as well as 5% higher than 2017, while gold production 54,210 ounces exceeded its guidance by 12%.

Why buy Fortuna?

For 2019, Fortuna is forecasting production of up to 9 million silver ounces and 54,000 ounces of gold. When combined with projected all-in sustaining costs (AISCs) of between US\$9.90 to US\$12.10 per silver equivalent ounce produced and firmer precious metals prices, Fortuna's earnings should grow.

On commencing commercial production, Lindero is expected to produce 137,000 gold ounces during its first year, with AISCs averaging US\$802 per ounce produced. In an operating environment that sees gold is trading at over US\$1,320 per ounce, Fortuna's earnings will get a solid lift that will ultimately cause its stock to appreciate. If gold remains at current levels and Fortuna demonstrates that Lindero can consistently operate as forecast, then the miner's stock could potentially double.

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