



Will This Primary Silver Miner Deliver Further Value for Investors?

Description

Silver has rallied significantly since hitting a multi-year low in late 2018 to be trading at over US\$15.60. This — along with some analysts claiming that the white metal could rise to as high as US\$17 an ounce during 2019 — has sparked considerable interest in silver miners. One that surged substantially because of these and other positive developments is **First Majestic Silver** ([TSX:FR](#))([NYSE:AG](#)), which gained 31% over the last year.

Solid 2018 results

It isn't only firmer silver that is responsible for this solid gain. The US\$320 million acquisition of Primero Mining in early 2018 gave First Majestic's reserves and production a healthy boost, while its solid full-year 2018 results demonstrate that it is capable of unlocking value for investors, even if silver prices [remain suppressed](#).

First Majestic reported record production of 22.2 million silver equivalent ounces, which was a whopping 37% higher than 2017. Cash costs fell by 1% to US\$6.98 per ounce produced, although all-in sustaining costs (AISCs) rose by 8% to US\$14.95 an ounce. Those AISCs were only US\$58 an ounce lower than the average realized sale price of US\$15.53, highlighting that First Majestic needs higher silver if it is to grow earnings.

A combination of weaker silver prices, higher AISCs, and an almost US\$200 million impairment charge were responsible for First Majestic reporting an annual net loss of US\$24 million, which was almost four times greater than a year earlier.

Growing production

First Majestic has forecast that 2019 production will rise by as much as 24% compared to 2018 to 27.5 million silver equivalent ounces, while AISCs are expected to fall to as low as somewhere between US\$12.55 and US\$14.23 per ounce produced. This will go a long way to boosting the miner's earnings, especially if silver firms to as high as US\$16.75 per ounce, as predicted by the Silver Institute.

Even if the white metal doesn't perform as strongly as the institute predicts, the consensus among analysts is that it will average over US\$16 an ounce during 2019, boding well for higher earnings for First Majestic. The growing likelihood of the U.S. and China reaching an agreement on trade, a more dovish stance by the Fed on interest rates, and a softer outlook for the U.S. dollar are all positive developments for silver.

First Majestic has also committed to 2019 capital expenditures of US\$137.4 million, which represents a 20% increase over its revised 2018 budget. That amount includes spending US\$76.3 million on expansionary projects aimed at expanding reserves, boosting production and increasing efficiencies across First Majestic's mines, ultimately leading to lower ASICs and higher earnings.

The miner expects its reserves to expand, having executed its largest drilling program ever during 2018. First Majestic finished 2017 with proven and probable reserves of 196 million silver equivalent ounces with 39% of those reserves located at the San Dimas mine acquired as part of the Primero deal. That mine, incidentally, is First Majestic's lowest-cost and largest-producing mine. San Dimas's production will keep growing as First Majestic implements further efficiencies and develops an asset, which, as underscored by its measured and indicated resources of 61 million silver ounces and 811,000 ounces of gold, possesses tremendous exploration upside.

Is it time to buy First Majestic?

In the current difficult operating environment, it is difficult to find the larger primary silver miners as attractive investments. This is especially the case for First Majestic, which, because of its high ASICs, is particularly vulnerable to any marked decline in the value of silver. For these reasons and the [recent solid gains](#) made by the stock, there are more appealing opportunities for contrarian investors seeking exposure to silver.

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