



Is Endeavour Silver Corp. (TSX:EDR) a Risky Investment?

Description

With silver now trading at US\$15 an ounce, which is around where it was in late 2009, there are growing questions about the viability of the operations of many primary silver miners. This is because while silver [remains stagnant](#), costs continue to rise, impacting the profitability of primary silver miners and the return on capital that they can generate.

That has triggered significant speculation that the industry is on the cusp of becoming unprofitable, and as miners wind down capital expenditures to boost cash flow and profitability, many silver mines will become uneconomic to operate.

One primary silver miner that has attracted considerable ire from investors in the past is **Endeavour Silver (TSX:EDR)(NYSE:EXK)**, which has been on a tear since the start of 2019, gaining over 19%. Many of Endeavour's problems stem from its portfolio of aging mines, which are suffering from falling ore grades, leading to high operating costs and causing many investors to question whether it can sustain operations in the current environment.

Mixed results

The miner's full-year 2018 results were a mixed bag. While silver production soared by an impressive 12% year over year to 5.5 million ounces and silver equivalent ounces shot up by 9% to 9.5 million ounces, operating costs remained high.

Endeavour reported that total production costs were US\$15.21 per silver equivalent ounce sold, which was a worrying 30% greater than 2017; although all-in sustaining costs (AISCs) fell by 9% to US\$15.45 per ounce produced, they were only marginally lower than the miner's average realized price of US\$15.65 per ounce of silver sold during 2018.

As a result, Endeavour announced a 2018 net loss of just over US\$12 million compared to a US\$10 million profit a year earlier.

Productivity issues, equipment outages, and lower ore grades were responsible for the miner's high

operating costs, particularly at Endeavour's Guanaceví operation, which reported AISCs of US\$27.01 per silver equivalent ounce produced. Not only does that represent an 18% increase over 2017, but it is almost double Endeavour's average realized price per silver ounce sold during 2018.

Higher costs can be attributed to operational difficulties and lower ore grades, which averaged 222 grams of silver per tonne of ore (g/t) extracted during the year — 3% lower than a year earlier.

This isn't good news for Endeavour when it is considered that Guanaceví is responsible for a quarter of its combined precious metals production.

Growing silver and gold reserves

Nonetheless, the miner reported a solid increase in its precious metal reserves, and it is this — along with firmer gold and silver — which is responsible for the solid performance of its stock since the start of the year. Endeavour declared that proven and probable silver reserves had risen by 38% year over year to just over 46 million ounces, whereas gold shot up 35% to 427,000 ounces.

The notable increase in gold reserves is a positive development in an operating environment where the yellow metal, unlike silver, continues to perform well, trading at over US\$1,300 per ounce.

Is it time to buy Endeavour?

Disappointingly, the miner expects 2019 precious metals production to be around 10% lower than 2018 and that AISCs will remain somewhere in the range of US\$15-16 per ounce. Significant capital expenditures are required to continue its exploration activities as well as commence commercial production at its El Compas mine.

The poor outlook for silver coupled with Endeavour's high AISCs and operational issues all point to 2019 being a difficult year for the miner, despite the notable increase in reserves and its rock-solid balance sheet. For these reasons, there are [better investments](#) for investors seeking exposure to precious metals.

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Date

2025/08/17

Date Created

2019/03/14

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