



Is It Finally Time to Load Up on Silver?

Description

That other precious metal, silver, has been caught in a prolonged slump despite gold rallying sharply earlier this year as geopolitical and economic risk ratcheted up sharply because of rising trade tensions between the U.S. and China.

While some pundits claimed that silver was poised to rally sharply, it [has failed](#) to do so, seeing it currently trade at around US\$17 ounce, a mere 9% higher than its price at the start of 2019.

Improved outlook

A key reason for the belief that silver would rally was that the gold to silver ratio had blown out significantly, requiring 93 ounces of silver to purchase a single gold ounce.

Despite pulling back since early July 2019, 86 ounces of silver are required to buy one ounce of the yellow metal. Typically, this indicates that silver is heavily undervalued relative to gold, meaning that it's time to purchase the white metal.

A positive development for silver is the improved outlook for the global economy, as the white metal is as much an industrial commodity as it is a precious metal.

For 2018, industrial consumption of the white metal composes over half of all silver consumed. The anticipated improvement in the global economy should lead to an uptick in silver demand for manufacturing and other industries.

Demand for silver bullion for use in bars and coins also typically rises when the metal is cheap; with it trading at around US\$17 per ounce, pundits are expecting purchases of silver bullion to increase sharply.

These factors, along with firmer gold because of the correlation between the two precious metals, will give silver a solid bump and could see it move to as high as US\$18 per ounce, which will give miners a lift.

Quality miner

One silver miner that's delivering [considerable value](#) is **Silvercorp Metals** (TSX:SVM)(NYSE:SVM). The miner even after gaining a whopping 124% since the start of 2019 appears ready to unlock greater value for shareholders.

Silvercorp is one of the lowest cost silver producers among miners, reporting cash costs of negative US\$2.72 per ounce sold and all-in sustaining costs (AISCs) of US\$4.15 an ounce.

These are significantly lower than many of Silvercorp's peers, including one of the world's largest primary silver miners **First Majestic Silver**, which reported AISCs for the quarter of US\$10.76 per silver ounce extracted.

Those low AISCs give Silvercorp a handy financial advantage over its peers and allows it to remain profitable at silver prices where other miners would be operating at a loss.

The miner has also demonstrated that it consistently grow production at a steady clip, reporting fiscal 219 output of 6.4 million silver ounces, 7% greater than a year earlier.

Silvercorp is on track to achieve its fiscal 2020 guidance which will see its silver production rise by 3% compared to 2019. That along with firmer silver, lead and zinc will give the miner's earnings a solid boost.

Silvercorp's appeal as an investment is further enhanced by its rock solid balance sheet. As at the end of September 2019, it had US\$56 million of cash and US\$79 million in short-term investments compared to long-term liabilities of US\$49 million.

That endows the miner with considerable financial flexibility, allowing it to comfortably weather softer silver prices for a prolonged period while still financing exploration and mine development activities.

Foolish takeaway

While I'm not convinced that the worst is over for silver, Silvercorp is a top play for any investor seeking to profit from a recovery. Its growing production, long-life reserves and low costs means that even a slight increase in the price of silver will give Silvercorp's earnings a solid boost.

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