

MAG Silver Corp.

MAG-TSX | MAG-NYSE MKT

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Mining | Precious Metals - Silver

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Company Brief

Rating	Outperform
Target Price	C\$21.00
Current Price (Nov-13-18)	C\$8.11
Suitability	High Risk/Speculation

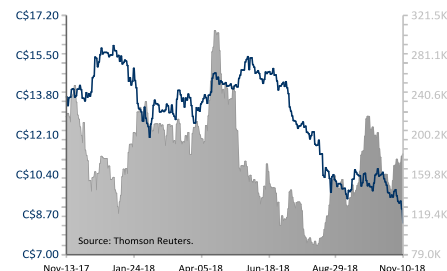
Juanicipio JV Engages EPCM Ahead of Construction Decision

Event: MAG released its 3Q18 financial statements.

Analysis: Although the Feasibility Study for Juanicipio remains under review by the Technical Committee, a number of key developments have taken place in the quarter that are supportive of a construction decision being made and Fresnillo's reiterated mid-2020 timeline for first production. We continue to view that the Feasibility Study will not fully capture the potential of Juanicipio given the exclusion of inferred resources and the significant exploration potential remaining at the project, however with a construction decision for Juanicipio on the horizon, we believe MAG is positioned to attract a market re-rating as the company's flagship project transitions to production.

Details:

- Construction Decision on the Horizon** – While the Feasibility Study for the Juanicipio project remains under review by the Technical Committee, Fresnillo's guidance of reaching production by mid-2020 remains intact. MAG confirmed that the Juanicipio JV partners are currently reviewing EPCM contracts for the construction of the process plant and associated surface infrastructure and an Operator Service agreement that will become effective upon commercial production. Fresnillo has also indicated that it has commenced discussions with suppliers for long lead equipment. We view these developments to be positives as they, along with continued underground development, demonstrate the intent to move forward with construction of the project.
- Twin Ramp Development Complete** – During the quarter, 1,470 metres of underground development was completed, focusing on the development of underground infrastructure to allow access to the full strike length of the Valdecanes Vein. Notably, the underground twin ramp development was sufficiently completed during the quarter, and is accessible through the second entry portal for the mine. While the pace of underground development slowed in 3Q18, below the 1H18 average of 1,844 metres per quarter, total underground development completed at Juanicipio now exceeds 16 kilometres with 5,159 metres completed YTD, representing 32% of total development since 2013.
- Exploration Continues** – MAG also provided updates to the JV exploration program at Juanicipio. Step-out drilling continued at the western extension of the Juanicipio Vein targeting other high priority targets. In-fill drilling remains ongoing with the aim to convert Inferred resource at the Deep Zone to Indicated resources. 46,060 metres, over 48 holes, have been drilled under the current exploration program and assay results remain outstanding. The Deep Zone remains open at depth and laterally, in both directions, along strike.
- Treasury Remains Strong** – MAG ended 3Q18 with US\$142 mln in cash, in-line with our estimate of US\$140 mln. MAG remains debt free and funded to start the construction of the Juanicipio project in 1H19. The Company did reiterate commentary that changes to the scope of the project could drive an incremental increase in the initial capital required for the project, however no range was provided.

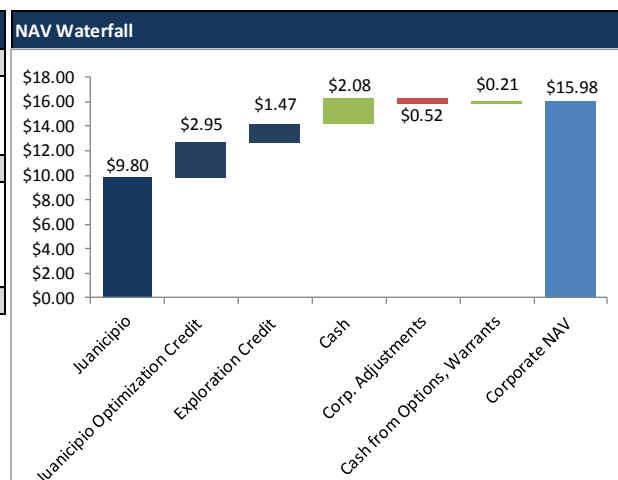


Valuation

We reach our C\$21.00 target through the application of a 1.4x P/NAV multiple to our fully funded NAV_{5%} for Juanicipio. We also reflect upside at Juanicipio and exploration potential through credits of US\$200 mln and US\$100 mln, respectively. See Exhibit 1 for NAV Breakdown.

Exhibit 1: NAV Breakdown

Projects	(Cdn\$min)	Per Sh.	Multiple	Adj. Per Sh.
Net Asset Value - DCF				
Juancipio	\$859.1	\$9.80	1.40x	\$13.72
Juancipio Optimization Credit	\$258.5	\$2.95	1.00x	\$2.95
Exploration Credit	\$129.3	\$1.47	1.00x	\$1.47
Project NAV	\$1,246.9	\$14.22		\$18.14
Cash	\$182.2	\$2.08		\$2.08
Long Term Debt	\$0.0	\$0.00		\$0.00
Corp. Adjustments	-\$45.9	-\$0.52		-\$0.52
Cash from Options, Warrants	\$18.5	\$0.21		\$0.21
NAV	\$1,401.7	\$15.98		\$19.90



Source: Raymond James Ltd.

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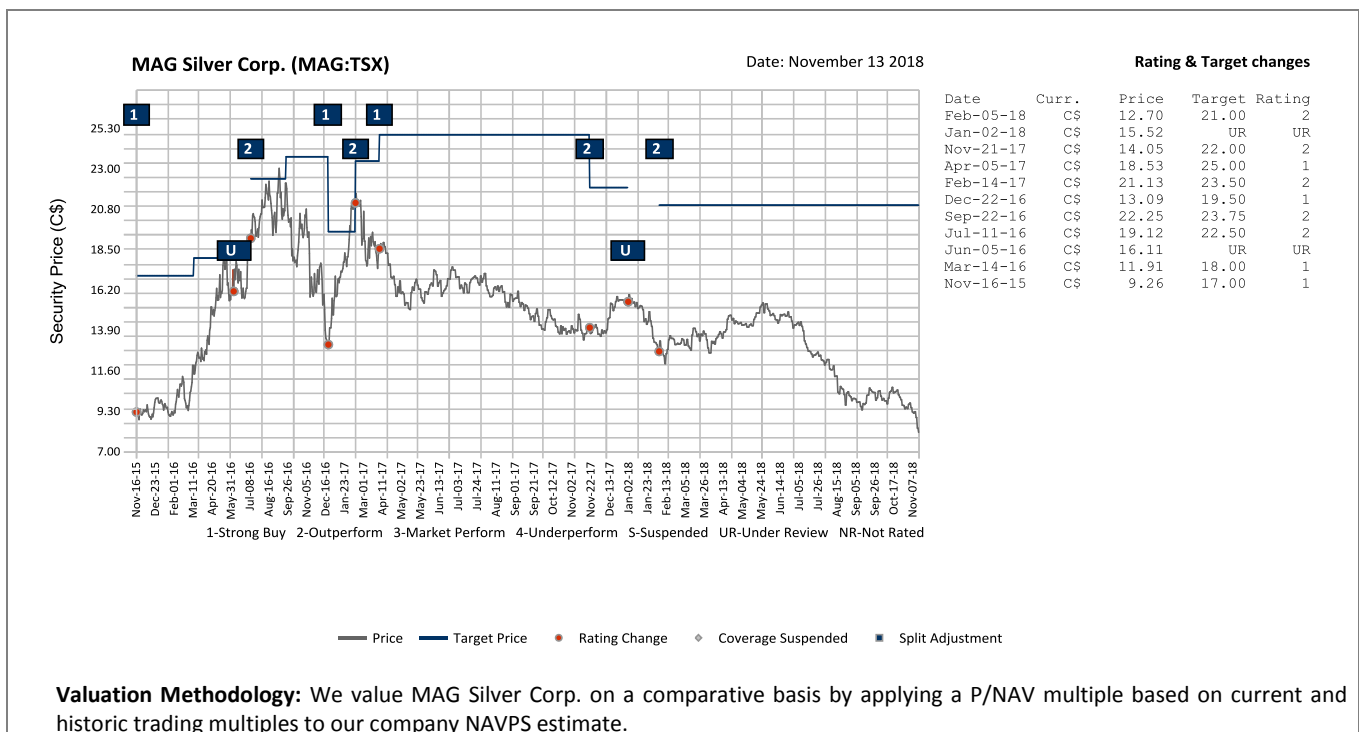
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Risks - MAG Silver Corp.

MAG Silver is in the development stage at Juanicipio project. The company is subject to risks and challenges similar to companies in a comparable stage.

Risks to our 6 to 12- month outlook for MAG Silver include, but are not limited to:

Commodity Price Risk - Our outlook assumes certain commodity prices. A decline in the silver or base metal prices from our assumptions or strengthening of the Mexican Peso could cause deterioration to the project economics.

Jurisdictional, Social and Permitting Risk - We believe jurisdictional, social and permit risk is low for Juanicipio given that is in a country and region where there is an established history of operating mines and a clear mining and taxation regime. Further, with Fresnillo, owner and operator of two silver mines in the Fresnillo Silver District, as the JV partner and agreements in place with Ejidos regarding surface rights, there is limited social risk.

Capital Requirements – Although MAG will not be responsible to fund 100% of the capital expenditure required to build the Juanicipio project, there will be sizable capital requirements in the mid-term to commence mining operations at Juanicipio. While MAG has a strong cash position and shareholder registry, there is no assurance that funding initiatives will continue to be successful or can be completed at terms in line with what we forecast.

Cost Inflation Risk – Our outlook assumes certain future capital and operating costs for the Juanicipio project. Although we apply conservative estimates to these assumptions, there is a risk that we have understated these costs or that these costs may increase in the future.

Reserve / Resource Risk – Geological models and mineralization are interpretative and the current resource may be more complex (or different) than modeled, which could result in lower grade or tonnage than estimated using the current NI 43-101 resource/reserve statement.

Exploration Risk – There is no certainty that MAG’s exploration success will continue at either of its projects. There is risk that future exploration programs may not return results that support our assumed valuation.

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