

Silvercrest Metals: An Emerging Producer To Buy On Dips

Jun. 1, 2020 11:05 AM ET 15 comments | 19 Likes

by: Taylor Dart

Summary

- Silvercrest Metals is one of the best performing silver stocks year-to-date with a 33% year-to-date return, massively outperforming the Silver Junior Index's negative return.
- The company's Las Chispas Project boasts one of the highest-grade silver resources in North America with a silver-equivalent grade above 800 grams per tonne.
- However, recent discoveries suggest that this grade could increase by 30% or more when accounting for monster intercepts and high-grade zones delineated at Area 118, Area 200, and Babi Vista.
- I continue to see the company as a takeover candidate, and see the potential for a significant re-rating in the next 18 months as the company heads towards production.

While the Gold Miners Index (GDX) and several gold names have come back with a vengeance from their 52-week lows set in mid-March, the silver miners (SIL) has seen a dearth of new 52-week highs, with most silver miners lagging their gold sector peers by a wide margin. However, one name in the silver not only managed to post new 52-week highs but also stormed through all-time highs in May, a sign of extreme relative strength vs. both silver (SLV) and its peer group. This company is Silvercrest Metals (SILV), and the stock's sharp advance higher is undoubtedly justified as the development-stage miner continues to report bonanza grade intercepts from its Las Chispas Project in Mexico. The Preliminary Economic Assessment [PEA] released last year showed exceptional economics, but it's looking like early assumptions will be improved upon based on a string of discoveries made in the past twelve months. Based on the company's solid balance sheet, extremely high-grade resource, and a team that's done it before, I continue to see the company as the top takeover target in the silver space, and I expect further upside as company moves closer to production.





(Source: Company Presentation)

In a sector that's plagued with several sub-par miners that can't execute like Endeavour Silver (SILV) and Excellon Resources (EXLFF), Silvercrest Metals is a breath of fresh air in the sector as they continue to under-promise and over-deliver. Not only does the company have high insider ownership of over 10%, and a fortress-like balance sheet to navigate any unforeseen events, but the company's penchant for taking care of shareholders is evidenced by the chart below. Silvercrest Metals is one of the only companies in the precious metals sector that has completed multiple capital raises at successively higher prices, and notably accomplished this in a period of overall despondency in the industry (2017 to 2019). The most recent over-subscribed capital raise for US\$100 million was completed at C\$7.50 a share despite an avalanche of selling pressure in the sector following the COVID-19 Crash. This recent capital raise has put the company in a position where it's almost fully-funded to complete construction assuming a Positive Feasibility Study later this year, with over US\$165 million in cash in the treasury currently. Before boring you with the balance sheet and praise for the company, let's take a closer look at the company's project below:





(Source: Company Presentation)

For those unfamiliar with Silvercrest, the company spun-out its project following the Silvercrest Metals 1.0 takeover in 2015 by First Majestic (AG), and has wasted no time uncovering a world-class resource just 25 kilometers from its prior project. The company's current focus, the Las Chispas Project in Mexico, currently boasts a resource of over 100 million silver equivalent ounces at an average weighted grade of over 800 grams per ton silver. The Preliminary Economic Assessment released last year envisioned a mine life of 8.5 years with average silver-equivalent production of over 9.5 million ounces per year, at incredible all-in sustaining costs in the first four years at just \$4.86/oz. To put these costs in perspective for those used to all-in sustaining costs for gold miners, this works out to \$365/oz at a 75:1 silver/gold ratio and \$4.86/oz at a 100:1 silver/gold ratio. Assuming these projections are correct, this would be one of the lowest-cost projects in the world with margins better than 65% for the first four years using a conservative \$15.00/oz silver price. However, the game-changer for the company are the recent discoveries made on the property that suggest much higher-grades than initially anticipated on the property.





LC19-118: 8.6m @ 7,873 gpt AgEq*

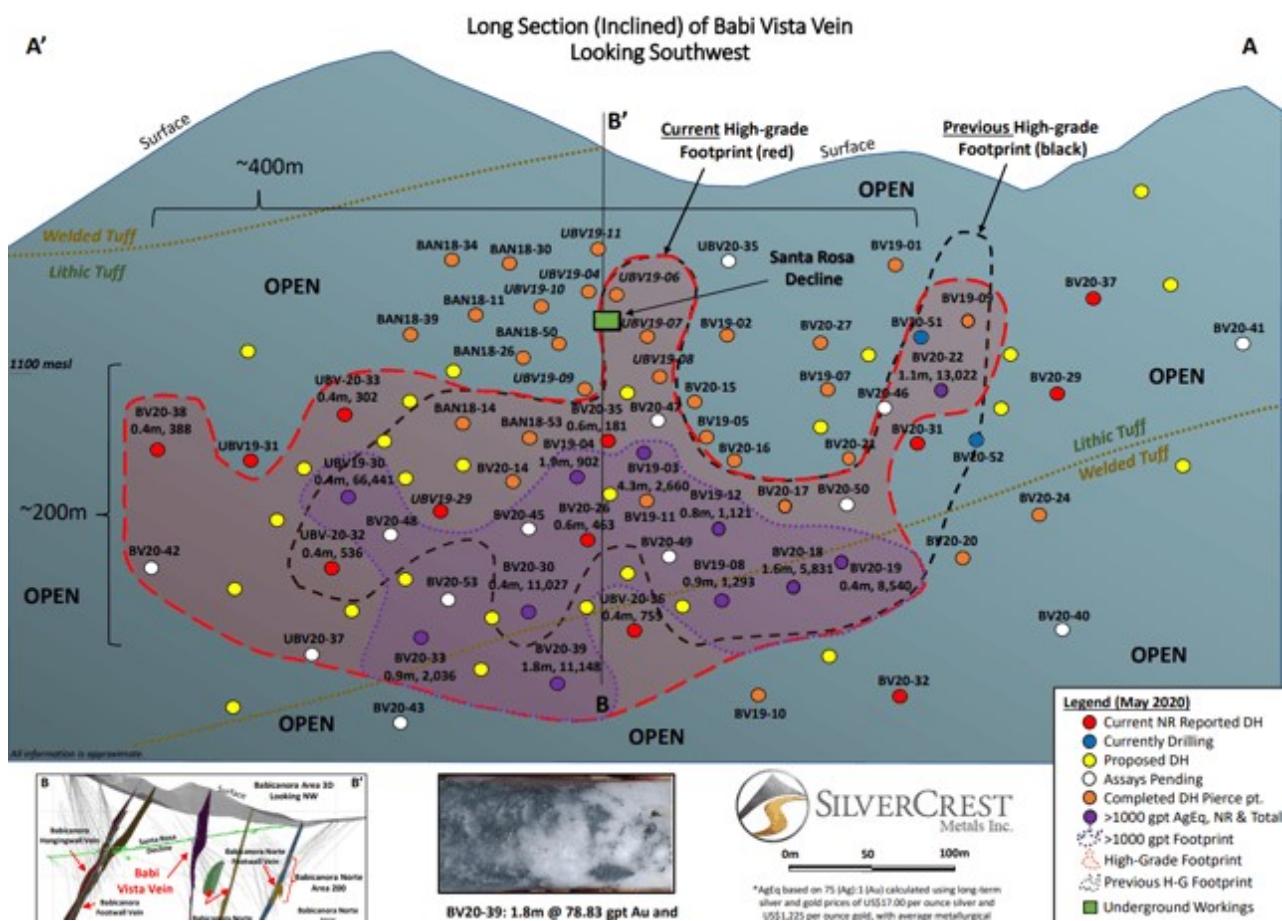
(Source: Company Presentation)

Beginning with the Babi Vista Vein discovery, Silvercrest released its updated resource estimate in Q1 2019, reporting a nearly 30% increase in size from its previous resource estimate, with the updated resource coming in at 108 million silver-equivalent ounces at an average grade of 823 grams per ton silver-equivalent. Shortly after this in July, the company confirmed the discovery of the Babi Vista Vein immediately adjacent to its current resources with underground access, with the vein being uncovered while constructing the Santa Rosa decline. The company followed up further on this discovery in Q4 and reported an incredible intercept of 8.8 meters of 1,136 grams per ton silver-equivalent in BV-19-03, and this hole has been dwarfed by the grades in BV-20-39 released last week, with 1.8 meters of 11,148 grams per ton silver-equivalent. This hole has expanded the high-grade foot print of the Babi Vista Vein to an area with a 400 meter strike length, 200 meter height, and an average grade of above 3000 grams per ton silver-equivalent. These grades are more than triple the grades in the Q1 2019 resource estimate (823 grams per ton silver-equivalent), suggesting that the PEA economics can certainly be improved upon.





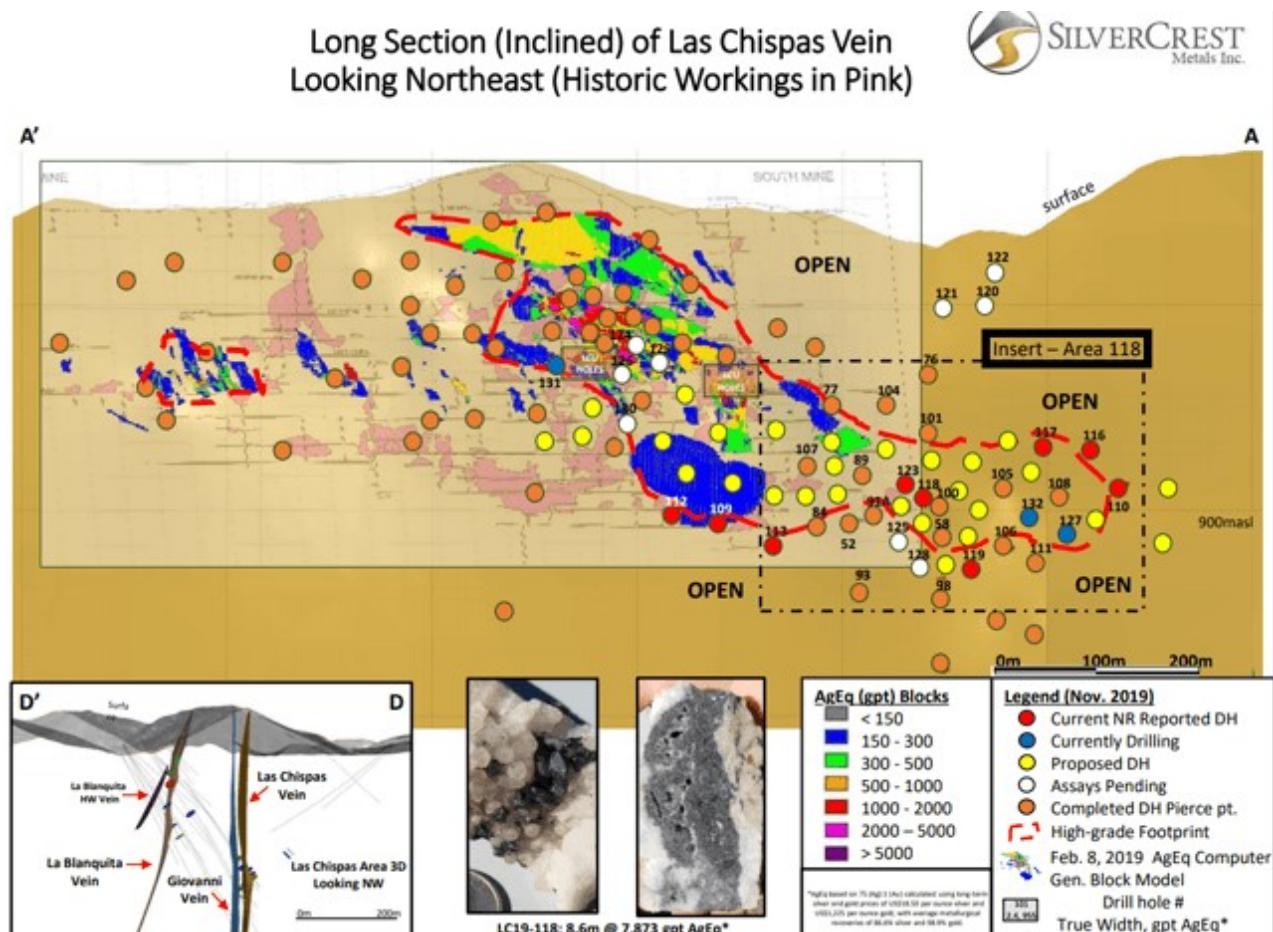
(Source: Company Presentation)



(Source: Company Presentation)

If it were just one discovery made since Q1 2019, that would be great, but Silvercrest has delivered three significant new zones since it announced its Q1 2019 resource estimate. The other significant discovery made by the Silvercrest team was the Area 118 Zone, uncovered in Q4 2019 in the newly discovered Area 118 Zone, located near the Las

Chispas and Giovanni veins. The highlight intercept for the Area 118 discovery was a bonanza intersection of 8.6 meters of 7,873 grams per ton silver-equivalent in drill-hole LC19-118, the highest-grade hit on the property at the time. The high-grade footprint of this zone is believed to be 300 meters long with a 125-meter height with a 3000 gram per ton silver-equivalent average grade. As we can see from the image below, this area is outside of the current Las Chispas Vein resource. It's worth noting that Las Chispas and Giovanni were relatively lower-grade areas of the resource estimate, with an average weighted grade below 450 grams per ton silver equivalent. However, the Area 118 discovery has added a high-grade component to this resource.

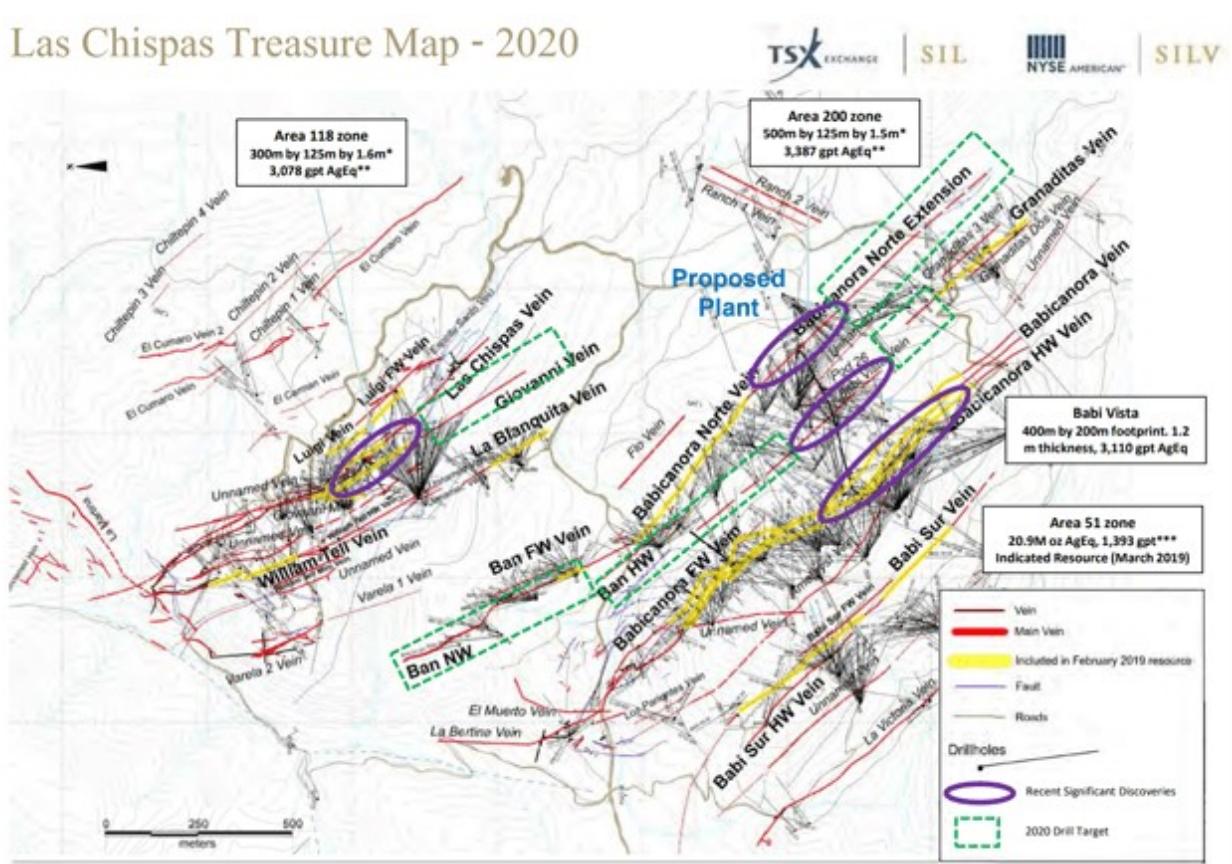


(Source: Company Presentation)

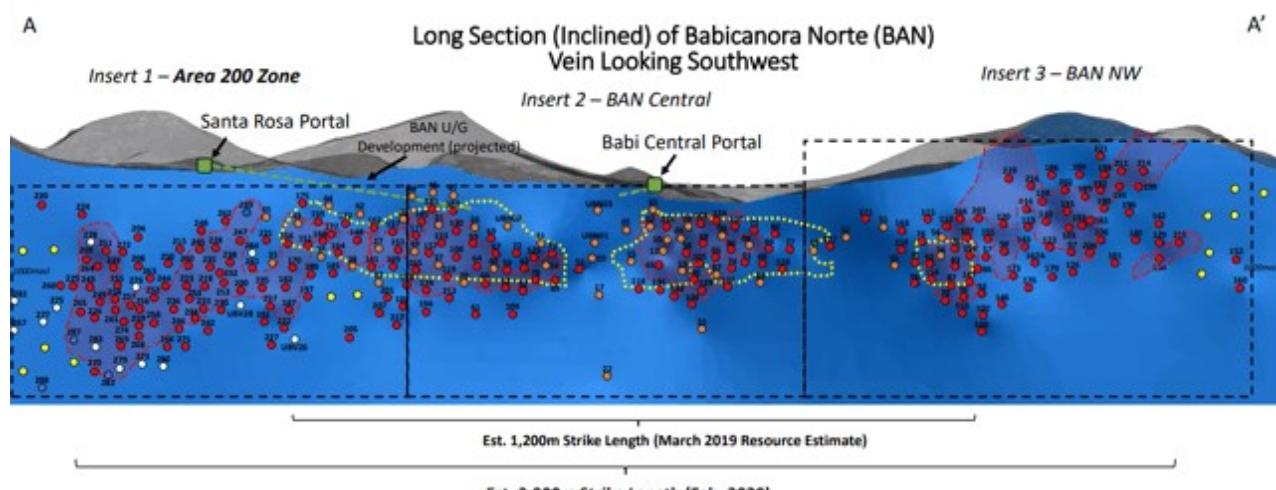
Last but not least, the company uncovered the Area 200 Zone earlier this year, a bonanza-grade discovery that extended the strike length of the Babi Norte Vein from 1.2 kilometers to over 2 kilometers. It's important to note that the Area 200 Zone was not included in the Q1 2019 resource estimate. Based on current drilling, the zone has a high-grade footprint with a 500-meter strike length, 125 meters in height, and an average weighted grade above 3,375 grams per ton silver-equivalent on an uncut and undiluted basis. This is significantly higher grade than the current Babi Norte Vein model, which

comes in below 2000 gram per ton silver on a weighted average basis. Therefore, the added strike length at up to 50% higher grades should add considerable ounces here. The most impressive drill intercept within the discovery was BAN19-274, which intersected 1.4 meters of 16,189 grams per ton silver equivalent. We can get a look at these discoveries below, and see the exciting resource potential we have at Las Chispas with current resource areas shown in yellow, and new discoveries circled in purple ink.

Las Chispas Treasure Map - 2020



(Source: Company Presentation)



(Source: Company Presentation)

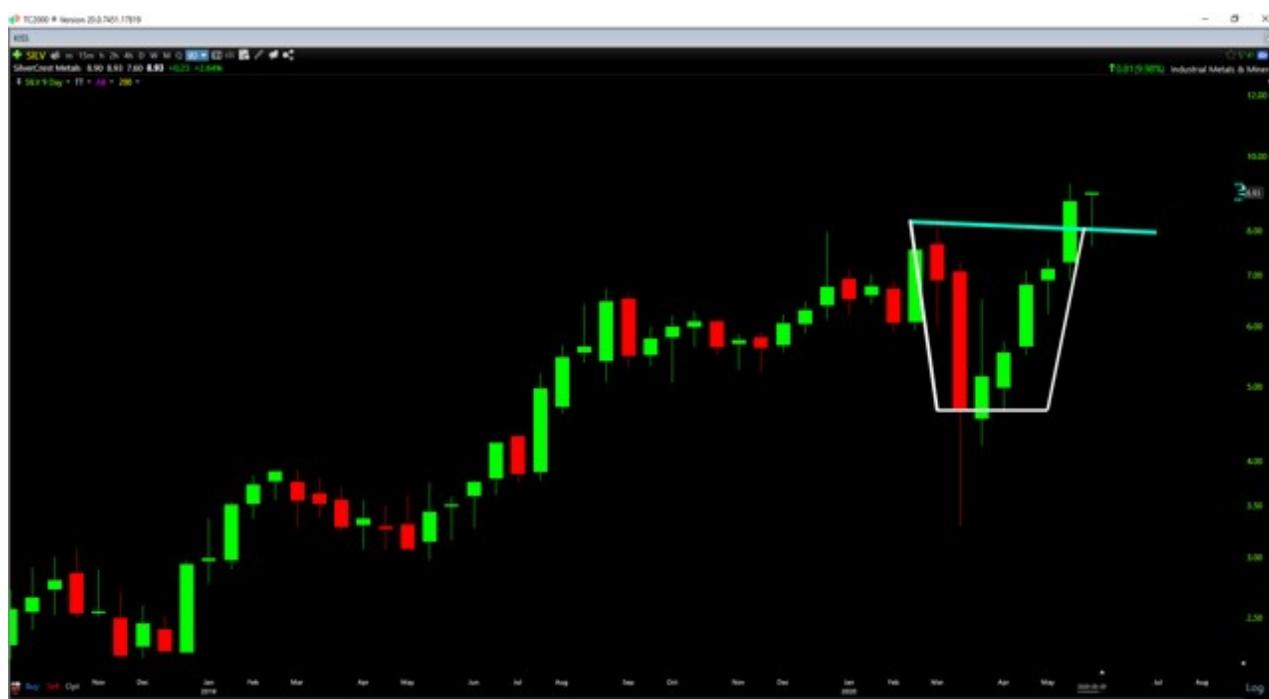
Based on the recent drilling success and the fact that the company has only tested 30% of the known 40 veins on the property, I believe Las Chispas ultimately holds over 160 million silver-equivalent ounces, and I would not be surprised to see the company prove this up by Q1 2022. The good news is that given that the company is nearly fully-funded for production with a modest initial capital expenditure estimate for the project of just over US\$100 million, the company should be able to use future cash-flow to drill out new prospects aggressively. This is great news as it means we've likely seen the last of significant capital raises for the company. While the company has never been one to dilute shareholders unnecessarily, it's nice that shareholders can look forward to minimal dilution going forward as Las Chispas finally heads towards the construction phase.



(Source: Company Presentation)

Outside of exceptional news at the drill bit, the other great news is that the company has stockpiled over 200,000 tons of ore, reducing risk as we head down the path towards production. Also, metallurgical results completed earlier year following nine months of work on all veins in the current resource, suggest that recoveries could be as high as 95%. This translates to a 340 basis improvement from the Preliminary Economic Assessment. Based on improved metallurgy and a higher-grade resource that can be pushed into the early years of the mine life, I would expect even more robust economics in the Feasibility Study [FS] vs. the Preliminary Economic Assessment. Typically, the economics get worse when moving from the PEA to the FS as fewer ounces are included,

given the more rigorous requirements. However, a portion of the high-grade discoveries should offset a good chunk of any material lost on the graduation to the Feasibility Study. Therefore, the sub \$7.00/oz life of mine all-in sustaining costs will likely be confirmed. Between a backlog of drill results, and an expected resource upgrade and Feasibility Study in the next seven months, we should have an exciting back half of the year for the company.



(Source: TC2000.com)

While all of this news is great, it doesn't mean much without the technical picture confirming this, but fortunately, for Silvercrest Metals, the technical picture is stronger than ever. As we can see from the long-term chart above, Silvercrest has broken out of a multi-month cup and handle base, and we've seen massive accumulation with above-average buying volume in seven of the past eight weeks. This is typically a bullish pattern, especially considering that Silvercrest is one of the only silver miners rushing to new all-time highs, suggesting that the stock remains a leader after the mid-March market-wide take-down. While there's no guarantee that the stock heads there in a straight line, a move to the US\$11.00 level would not be surprising.





(Source: Company Presentation)

Given Silvercrest's continued discoveries, industry-leading potential margins if Las Chispas heads into production, and a balance sheet that should be able to cover the majority of construction costs, I believe Silvercrest Metals is a likely takeover candidate in the sector. *Few silver mines are boasting all-in sustaining costs \$9.00, let alone the sub \$5.00/oz costs projected at Las Chispas in the first four years, and this is excluding the recent ultra high-grade discoveries made in the past nine months. Therefore, the economics should only improve from here, and Silvercrest should continue to be a winner whether it goes into production on its own, or is acquired before this happens. I continue to see Silvercrest Metals as one of the most attractive ways to play silver (SLV) as the combination of a robust technical picture underpinned by one of the best fundamental stories in the sector suggests further upside ahead.*

Disclosure: I am/we are long GLD, SILV. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Additional disclosure: Disclaimer: Taylor Dart is not a Registered Investment Advisor or Financial Planner. This writing is for informational purposes only. It does not constitute an offer to sell, a solicitation to buy, or a recommendation regarding any securities transaction. The information contained in this writing should not be construed as financial or investment advice on any subject matter. Taylor Dart expressly disclaims all liability in respect to actions taken based on any or all of the information on this writing.

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Comments (15)

bengalesq

PREMIUM

The price has popped quite a bit. I managed to add on a dip at \$4.82. Would like to increase position a touch (about double) but not at these levels. Any thoughts of a price drop on this - maybe if a second leg down in the market overall pulls all boats with it or something of that ilk?

01 Jun 2020, 02:16 PM

ChicagoJack55

Marketplace

Hi Taylor, thanks for your article, much appreciated. Any thoughts on Bear Creek, and Aurcana?(also late stage dev silver)

01 Jun 2020, 01:41 PM

Razalgul

PREMIUM Marketplace

Thank you for your insights, Taylor. This has been a favorite of mine too and is my largest single position. From what I have seen, you always do excellent and thoughtful analysis of the mining sector. You should take a look at ABR.AX. Cheers!

01 Jun 2020, 12:50 PM

Diottica

Thanks for this. Looking to add to my small stake here on any pullback.

01 Jun 2020, 12:20 PM

Bruster

PREMIUM Marketplace

Good article. Loved SILV since I first bought in late 2017. They are becoming an ever larger silver and gold producer while already achieving very low aisc. Price has been volatile but heading up. Dips might give you a chance to buy-in. I have seen biggest price moves when gold price moves. Both of their mines are in Sonora Mexico, a relatively stable mining area. If SILV management is able to resume exploration after coming first pour I think there are many other profitable claims to be acquired. Sometimes I have just parked my money here while I flesh out other stocks, as the direction of their price has been up up for several years.

01 Jun 2020, 11:44 AM

tman1

Thanks Taylor. Agree that SILV is one to own if you believe silver is headed up.

01 Jun 2020, 11:27 AM

bally22

the great think about SILV is that the metal does not have to go up

01 Jun 2020, 11:33 AM

Taylor Dart

Contributor PREMIUM

Author's reply » Hi Tman,

Thank you and thanks for reading.

01 Jun 2020, 11:34 AM

Taylor Dart

Contributor PREMIUM

Author's reply » Hi Bally,

Couldn't agree more. Best offensive play given the potential for 65% margins at \$20.00/oz, and best defensive play in a Tier-1 jurisdiction with costs potentially coming in below \$4.50/oz if they can push even more of this high-grade from Babi V and other areas into first few years of mine. Was extended previously which is why I didn't like it, but think we shook out most of weak hands, so picked up a position last month here. (edited)

01 Jun 2020, 11:36 AM

Uncommon Wisdom

I like your work Taylor.... But Mexico is not a "Tier-1" jurisdiction. There are several US and CA-based mining companies currently faced with government tax claims, litigation (such as SILV has on one of their properties), legal and illegal actions by indigenous groups and local coops -- that have to approve mining projects under Mexican law. MX-based mines should be discounted up to 50% vs. mines located in the US or AU.

02 Jun 2020, 01:08 AM

Taylor Dart

Contributor PREMIUM

Author's reply » Should have read tier-2, but Sonora is one of the better areas in Mexico, my mistake. I only consider most of Canada, US, Australia to be tier-1.

02 Jun 2020, 03:19 AM

sabedford

PREMIUM Marketplace

Very comprehensive report, thanks!

01 Jun 2020, 11:20 AM

Taylor Dart

Contributor PREMIUM

Author's reply » Hi Sabedford,

Thank you & thanks for taking the time to read.

01 Jun 2020, 11:36 AM

No prophet investor

Would you buy here or wait for a pullback? I keep thinking we are due but the bulls are in charge. Thanks for the write up.

01 Jun 2020, 11:16 AM

Taylor Dart

Contributor PREMIUM

Author's reply » Hi NPI,

Happy the write-up was of value, I'm not adding personally above \$9.00 as I was buying in early May, but the accumulation the past several weeks is impressive, so no reason it can't go higher.

01 Jun 2020, 11:38 AM