

Pan American Silver

Results update

Consistent growth at higher costs

Metals and mining

24 January 2024

Price **US\$14.00**
Market cap **US\$5,102m**

Net debt (US\$m) at Q323, including short-term investments of US\$42m 423

Shares in issue 364.4m

Free float 100%

Code PAAS

Primary exchange TSX

Secondary exchange NYSE

Share price performance



% 1m 3m 12m

Abs (16.2) (7.8) (25.5)

Rel (local) (18.1) (20.1) (38.5)

52-week high/low US\$19.49 US\$13.14

Business description

Pan American Silver is one of the largest global primary silver producers and a sizeable gold miner, with operations in North, Central and South America since 1994. Following the acquisition of selected assets as part of the Yamana transaction, the company owns 11 producing operations, the currently suspended top-tier Escobal silver mine and several large-scale advanced exploration and development projects.

Next events

FY23 financial results 21 February

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Pan American Silver (PAAS) provided an update on its FY23 operational performance and FY24 guidance. While total silver production came in below guidance at 20.4Moz and gold output of 883koz was within guidance, the main highlight of the results was the record Q4 gold sales of 270koz (FY23 894koz). FY24 production expectations for gold and silver are broadly in line with FY23 guidance ranges, while costs are seen growing further. Despite our expectations of near-term cost normalisation, industry cost pressures remain visible. We have therefore pared down our valuation of PAAS from US\$23.5/share to US\$22.0 on more conservative cost forecasts and reduced production projections, which is partly offset by our slightly more favourable commodity price assumptions.

Year end	Revenue (US\$m)	EBITDA (US\$m)	EPS* (US\$)	DPS (US\$)	EV/EBITDA (x)	Yield (%)
12/21	1,632.8	593.2	0.75	0.34	9.4	2.4
12/22	1,494.7	272.0	(0.54)	0.45	20.4	3.2
12/23e	2,330.5	679.4	0.21	0.41	8.2	2.9
12/24e	2,532.5	734.1	0.18	0.40	7.6	2.9

Note: *EPS excludes exceptional items.

FY23 operational results: Good sales momentum

FY23 silver production came in below guidance at 20.4Moz (21–23Moz), with weaker than expected performances at La Colorada and El Penon mainly responsible for the shortfall. Gold output of 883koz was within the earlier guidance (870–970koz). Despite the somewhat subdued production results, quarterly sales numbers were robust, exceeding output in both segments. PAAS achieved record gold sales of 270koz in Q4 (+11% q-o-q), which, coupled with the favourable gold pricing, points to a strong end to the financial year, potentially offsetting weakness in silver production.

FY24 guidance: Higher production... and costs

PAAS guides FY24 silver and gold production of 21–23Moz and 880–1,000koz, which, taking into account full year contributions from the Yamana assets, imply only moderate growth compared to FY23. In the silver segment, the key driver is expected to be the recovery at La Colorada. Contrary to our expectations of some cost normalisation, industry cost pressures continue to persist. PAAS expects 3–7% cost escalation in FY24, resulting in cash cost guidance of US\$11.7–14.1/oz for silver and US\$1,165–1,260/oz for gold. The cost situation faced by the company is not unique, with the majority of peers that have so far published their FY24 cost expectations reporting similar or higher cost inflation.

Valuation: Gold price remains supportive

We have revised our valuation of PAAS to US\$22.0/share due to lower production and somewhat higher cost forecasts. At the same time, we have adjusted upwards our FY24 gold price assumption to bring it in line with consensus of US\$1,987/oz. Our FY23e EBITDA is largely unchanged at US\$679m, but we now expect a more modest improvement in FY24 to US\$734m. The gold price remains an important driver for PAAS and the current confluence of factors such as falling interest rates and geopolitical uncertainty bode well for the commodity price and the stock.

Q4/FY23 operational results: Strong sales momentum

FY23 silver production of 20.4Moz was below guidance of 21–23Moz and our estimate of 21.4Moz, with the Q4 number coming in at 4.8Moz, c 15% lower than Q323. That said, Q4 silver sales exceeded production by c 3%. The company has not provided any specific reason for the production shortfall, however we note the weak performance of the La Colorada mine, which saw a 20% q-o-q drop in silver output. In the same vein, Cerro Moro has seen a further sequential drop in quarterly silver production to 886koz (Q3 1,265koz). We believe the latter could be attributed to the grade normalisation, which saw a gradual reduction over the course of the year and is likely to fall further in FY24. With Cerro Moro's proven and probable silver grade of 276g/t (measured and indicated 340g/t), as per PAAS's latest mineral resource statement, grades of around 500g/t achieved by Yamana in 2022 could be viewed as high-grading and were not sustainable.

The main highlight of the FY23 operational results was the strong gold production and sales. While the full year gold output of 883koz was within the earlier guidance range, PAAS achieved a 10% q-o-q increase in production and an 11% q-o-q increase in sales in Q423. Given that gold now contributes more than 70% to the company's revenue, impressive gold sales coupled with favourable gold prices (Q4 realised price of US\$1,980/oz) point to a strong end to the financial year and should offset weakness in silver production.

Exhibit 1: Q123 and FY23 production and sales performance, koz

	Q123	Q223	Q323	Q423	FY23	FY23 guidance
Silver production	3,893	6,023	5,687	4,835	20,437	21–23Moz
Silver sales	4,446	5,719	5,827	4,959	20,951	
Gold production	123	248	244	268	883	870–970
Gold sales	133	246	244	270	894	

Source: PAAS

FY24 guidance: Modestly higher production and costs

PAAS expects FY24 silver and gold production of 21–23Moz and 880–1,000koz, which imply moderate growth compared to FY23. Apart from the effect of full consolidation of the Yamana assets, the key driver behind production in the silver segment this year is expected to be the anticipated recovery at the La Colorada mine, where PAAS guides higher average grades and throughput as a result of the completion of a new ventilation system in mid-2024. In the gold segment, Jacobina should continue to be the top performer, producing 185–203koz, albeit at higher costs compared to FY23, while the company's other main gold mines are likely to perform broadly in line with FY23.

PAAS expects cost pressures to continue in FY24, anticipating average consolidated cost inflation of 3–7% y-o-y, mainly relating to wages. At mid-ranges, FY24 cash cost guidance implies 8% and 11% increases for the silver and gold segments compared to the top end of the FY23 guidance (US\$12.0/oz and US\$1,100/oz, respectively). Despite an anticipated increase in costs, the company remains highly cost competitive within the broader industry context for both metals. PAAS is also guiding FY24 total capital expenditure of US\$375–395m, including US\$80–85m in project capital (mainly Skarn and Huaron), as well as guiding for G&A of US\$70–75m and a visible reduction in care and maintenance costs to US\$25–30m (FY23e US\$84m).

The company's FY24 guidance is based on assumed gold and silver prices of US\$1,950/oz and US\$23.5/oz and reflects the following main exchange rates: US\$/MXN17.5 and US\$/C\$1.36.

Exhibit 2: PAAS FY24 production and cost guidance

	Silver, Moz	Gold, koz	Cash cost, US\$/oz	AISC, US\$/oz
Silver segment	14.9–16.1	95–117	11.7–14.1	16.0–18.5
Gold segment	6.1–6.9	785–883	1,165–1,260	1,475–1,575
Total	21.0–23.0	880–1,000		

Source: PAAS

The cost situation faced by the company is similar to other precious metals producers. The majority of companies that have so far provided FY24 guidance expect further noticeable cost escalation in 2024. In addition to technical factors, it is driven by stronger currencies (the Mexican peso, in particular) and general cost inflation. Exhibit 3 shows FY24 cost guidance for selected gold and silver companies. While costs are reported on a different basis and may not be directly comparable in absolute terms, we note an anticipated average 26% increase in FY24 cash costs at First Majestic and Endeavour Silver, two independent silver producers. Gold producers appear to expect cost increases of lower magnitude.

Exhibit 3: FY24 cost guidance* for selected precious metals companies

	Market cap	FY24 guidance, US\$/oz		FY23 guidance, US\$/oz	
		Cash cost	AISC	Cash cost	AISC
First Majestic Silver	C\$1,820m	13.7–14.5	18.6–19.9	12.3–12.7	17.2–17.7
Endeavour Silver	C\$492m	14.0–15.0	22.0–23.0	10.0–11.0	19.0–20.0
Lundin Gold	C\$3,480m	680–740	820–890	650–700	820–870
Alamos Gold**	C\$6,490m	825–875	1,125–1,175	675–775	975–1,075
Hochschild Mining	£447m	N/A	1,510–1,550	N/A	1,490–1,580

Source: Company data. *Note that some of the companies report costs on a gold or silver equivalent basis, which make them incomparable in absolute terms; **Alamos Gold FY23 guidance is previous FY24 guidance. Priced at 19 January.

Valuation and earnings update: Supportive gold price

We pared back our DCF based valuation of PAAS from US\$23.5/share to US\$22.0 mainly due to our lower near-term production expectations and more conservative view on costs in line with the company's guidance, as our expectation of some moderate cost normalisation is now unlikely to materialise in FY24. Our revised FY24 silver segment cash cost now stands at US\$12.4/oz (FY23e US\$12.7/oz and guidance of US\$11.7–14.1/oz) on production of 22.3Moz (24.5Moz before) and our gold segment cash cost forecast is US\$1,225/oz (FY23e US\$1,107/oz and guidance of US\$1,165–1,260/oz) on 958koz output (from 1,044koz).

On the plus side, commodity prices remain supportive, with some forecasters expecting the gold price to hit US\$2,300/oz in 2025 fuelled by interest rates cuts, central banks' continued buying and geopolitical uncertainty. For now, we set our FY24 gold price assumption in line with Reuters consensus of US\$1,987/oz, leaving our longer-term expectations intact. For silver, our FY24 price remains unchanged at US\$23.5/oz, while we increase our FY25 assumption to US\$25.0/oz (from US\$24.0/oz) as we expect economic recovery and elevated costs to support prices in the medium term. In its latest update as of November 2023, the Silver Institute estimated that global silver demand fell c 10% to 1,143Moz in 2023, with the biggest drop seen in jewellery and silver investment. At the same time, industrial consumption remained robust, demonstrating a 49Moz (c 10%) increase compared to 2022. The electrical and electronics segment continues to drive industrial demand, with the share of photovoltaics (PV) in industrial applications reaching c 30% compared to just c 20% in 2021. We expect PV installations, in particular in China, to continue driving industrial silver demand.

Taking all the above into account, we have lowered our FY24 revenue and EBITDA estimates to US\$2,533m (from US\$2,644m) and US\$734m (US\$905m). The drop in our EBITDA forecast is mainly a result of lower production and higher costs assumptions partly offset by more favourable



gold pricing. Our FY23 EBITDA estimate of US\$679m remains broadly unchanged and we expect a relatively strong end to the year on the back of the impressive gold sales numbers.

Finally, our capital cost estimate for FY24 now stands at US\$374m (vs FY23e of US\$366m) and is at the lower end of the company's guidance. We note some flexibility in the project capital spend subject to market conditions and historical evidence of lower spend compared to initial guidance.

PAAS will release its FY23 financial results, in particular providing detailed cost data at the mine level, on 21 February; we are planning to revisit our near-term estimates after that.

Exhibit 4: Financial summary

	\$'m	2020	2021	2022	2023e	2024e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		1,338.8	1,632.8	1,494.7	2,330.5	2,532.5
Cash production costs		(696.7)	(925.5)	(1,094.4)	(1,474.8)	(1,633.6)
DD&A		(254.5)	(303.0)	(316.0)	(508.0)	(530.5)
Royalties		(27.5)	(36.4)	(35.9)	(49.5)	(53.9)
Gross Profit		360.2	367.9	48.4	298.2	314.6
G&A		(36.4)	(34.9)	(29.0)	(60.0)	(72.0)
Other operating costs		(109.2)	(42.9)	(63.5)	(99.1)	(39.0)
Operating profit (before amort. and excepts.)		214.6	290.2	(44.1)	171.3	203.6
EBITDA		469.1	593.2	272.0	679.4	734.1
Other operating expenses		(5.5)	30.7	(6.4)	27.2	15.0
Exceptionals		0.0	0.0	(211.8)	(67.4)	0.0
Reported operating profit		209.1	320.9	(262.3)	98.9	218.6
Net Interest and other finance expense		(20.1)	(16.2)	(22.5)	(93.9)	(94.7)
Profit Before Tax (norm)		189.0	304.7	(73.0)	104.7	123.9
Investment income (loss)		63.0	(59.7)	(16.2)	(8.8)	0.0
Profit Before Tax (reported)		252.0	245.0	(301.0)	(3.7)	123.9
Reported tax		(75.6)	(146.4)	(39.1)	(38.2)	(55.8)
Profit After Tax (norm)		113.4	158.3	(112.1)	66.5	68.2
Profit After Tax (reported)		176.5	98.6	(340.1)	(41.9)	68.2
Minority interests		(1.4)	1.1	1.7	(1.3)	0.8
Net income (normalised)		114.9	157.2	(113.8)	67.8	67.4
Net income (reported)		177.9	97.4	(341.8)	(40.6)	67.4
Average Number of Shares Outstanding (m)		210	210	211	326	364
EPS - basic normalised (\$)		0.55	0.75	(0.54)	0.21	0.18
EPS - normalised fully diluted (\$)		0.55	0.75	(0.54)	0.21	0.18
EPS - basic reported (\$)		0.85	0.46	(1.62)	(0.12)	0.18
Dividend (\$)		0.22	0.34	0.45	0.41	0.40
BALANCE SHEET						
Fixed Assets		2,577.0	2,517.4	2,444.1	6,018.2	5,861.2
Tangible assets		2,415.0	2,344.6	2,226.4	5,845.8	5,688.8
Investments		71.6	78.7	121.2	0.0	0.0
Other		90.4	94.2	96.6	172.4	172.4
Current Assets		856.9	1,001.2	804.4	1,470.4	1,563.8
Inventories		406.2	500.5	471.6	711.9	760.8
Receivables		127.8	128.2	136.6	156.4	156.1
Cash		167.1	283.6	107.0	324.5	369.3
ST investments		111.9	51.7	35.3	38.5	38.5
Other		43.9	37.3	53.8	239.1	239.1
Current Liabilities		(361.8)	(387.7)	(380.8)	(649.8)	(694.0)
Creditors		(281.9)	(306.1)	(308.1)	(483.9)	(528.1)
Short term borrowings and leases		(12.8)	(14.1)	(27.3)	(54.4)	(54.4)
Other		(67.0)	(67.5)	(45.5)	(111.5)	(111.5)
Long Term Liabilities		(466.3)	(494.9)	(666.0)	(1,959.9)	(1,929.5)
LT debt and leases		(20.7)	(31.8)	(199.5)	(754.7)	(769.3)
Other long term liabilities		(445.5)	(463.1)	(466.5)	(1,205.2)	(1,160.2)
Net Assets		2,605.8	2,636.0	2,201.6	4,878.9	4,801.5
Minority interests		(3.3)	(4.5)	(6.1)	(58.8)	(59.6)
Shareholders' equity		2,602.5	2,631.6	2,195.5	4,820.1	4,741.9
CASH FLOW						
Operating Cash Flow		176.5	98.6	(340.1)	(41.9)	68.2
D&A, exceptionals, other		280.5	498.9	555.2	651.1	680.9
Working capital movement		97.0	(71.1)	(42.0)	2.8	(4.4)
Tax		(81.6)	(129.2)	(137.8)	(158.2)	(98.8)
Net Interest		(10.0)	(5.1)	(3.4)	(38.6)	(56.8)
Net operating cash flow		462.3	392.1	31.9	415.3	589.1
Capex		(178.6)	(243.5)	(274.7)	(366.1)	(373.5)
Acquisitions/disposals		22.5	45.8	8.7	716.8	0.0
Equity financing		4.7	0.6	0.9	0.0	0.0
Dividends		(46.2)	(71.5)	(94.7)	(133.6)	(145.8)
Other		59.1	(2.3)	20.0	(11.5)	(25.0)
Net Cash Flow		323.8	121.2	(307.9)	620.9	44.8
Opening net debt/(cash), including ST investments		77.9	(245.5)	(289.4)	84.5	446.1
FX and other		(0.5)	(77.3)	(66.0)	(982.5)	(14.6)
Closing net debt/(cash), including ST investments		(245.5)	(289.4)	84.5	446.1	416.0
Closing net debt/(cash), excluding ST investments		(133.5)	(237.7)	119.9	484.6	454.5

Source: Pan American Silver accounts, Edison Investment Research

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