

# Industry Note

Equity Research

June 26, 2020

## Gold and Precious Minerals - Large-Cap Golds

### Silver Price Forecasts Increased

*Rebound in Industrial Demand Should Drive a Recovery in Prices..*

*While ETF Holdings Continue to Hit Record Levels*

- **Silver price forecasts increased** — Since we last raised our silver price deck on April 23, prices have continued to rebound off the multi-year lows set during the sell-off in March as conditions continue to improve for the metal, including very accommodative central banks, combined with a rebound in industrial demand. We are increasing our 2020 and 2021 silver price forecasts to \$17.35/oz and \$20.50, respectively, from \$16.85/oz and \$19.50/oz previously. We continue to forecast prices peaking at \$22/oz in 2022 before settling at our long-term price of \$20/oz in 2024.
- **Primary supply materially affected by COVID-19** — As the pandemic took hold in the Americas in early-March, governments took action to mitigate the spread of the virus by restricting or shutting-in production, including both in Mexico and Peru, which collectively represent 35-40% of global production. We estimate that ~40Moz of mined supply has been lost to-date in 2020. Global operations for the most part have returned to production; however, in many cases, production has not yet returned to full capacity.
- **Industrial demand beginning to improve** — According to TD's Commodity Strategy Team, silver's beta to commodity demand has increased significantly in 2020, which initially hurt silver's appeal relative to gold in the early stages of the pandemic. However, with PMIs now rising globally, it arguably sets the stage for a rebound in industrial demand for silver, which represents over 50% of consumption. We are currently forecasting that industrial demand will fall 8% this year to 474Moz, before rebounding by 6% in 2021 to levels similar to 2019.
- **ETF investment demand at record-highs** — Although industrial demand is in the early stages of a rebound, ETF holdings have increased 25% YTD to a record level of 765Moz. We continue to expect investment demand to remain strong for the next several years for many of the same reasons we favour gold: including unlimited Quantitative Easing by the fed, which we expect will suppress real rates by lifting inflation expectations at a faster pace than nominal rates.
- **Target prices increased across our coverage universe** — We have updated our estimates for our silver names under coverage to reflect our revised price deck, along with the staged ramp-up of their operations in Q2/20. For the most part, the COVID-19-related shut-ins were shorter in duration than expected.
- We have also increased our target prices across the group on higher target multiples. Pan American remains our top pick among the silver names, given its strong FCF profile, diversified asset base, and strong balance sheet.

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### Exhibit 1. TD Securities Precious Metals Forecasts (Gold Unchanged)

(US\$/oz)	2018A	2019A	2020E	2021E	2022E	2023E	LT
Gold	\$1,269	\$1,393	\$1,746	\$1,850	\$1,900	\$1,700	\$1,500
<i>Previous</i>			\$1,746	\$1,850	\$1,900	\$1,700	\$1,500
Silver	\$15.71	\$16.21	\$17.35 ↑	\$20.50 ↑	\$22.00	\$21.00	\$20.00
<i>Previous</i>			\$16.85	\$19.50	\$22.00	\$21.00	\$20.00

Source: TD Securities Inc. estimates

### Exhibit 2. Silver Supply/Demand Model

	2016	2017	2018	2019	2020E	2021E	Year on Year	
							2020E	2021E
<b>Supply</b>								
Primary Mining Production	206	198	203	210	199	206	-5%	3%
By-product Mining Production	682	631	662	646	614	635	-5%	3%
Mining Production	889	852	865	856	813	841	-5%	3%
Net Official Sector Sales	0	0	0	0	0	0	n/a	n/a
Scrap Silver Supply	140	138	145	146	146	148	-1%	1%
<b>Total Supply</b>	<b>1,028</b>	<b>990</b>	<b>1,010</b>	<b>1,003</b>	<b>959</b>	<b>989</b>	<b>-4%</b>	<b>3%</b>
<b>Demand</b>								
Fabrication Demand								
Other Industrial	498	505	516	515	474	505	-8%	6%
Jewelry	205	209	214	212	191	208	-10%	9%
Silverware	52	58	60	54	49	51	-10%	5%
Coins, Medals & Bars	208	151	156	174	200	221	15%	10%
... of which Photovoltaics	79	94	96	102	97	101	-5%	4%
Producer De-Hedging (Hedging)	19	(1)	(15)	(15)	(15)	(15)	0%	0%
ETPs Net	50	2	10	84	150	90	79%	-40%
<b>Total Demand</b>	<b>1,111</b>	<b>1,019</b>	<b>1,036</b>	<b>1,127</b>	<b>1,146</b>	<b>1,161</b>	<b>2%</b>	<b>1%</b>
<b>Balance</b>	<b>-82</b>	<b>-28</b>	<b>-26</b>	<b>-124</b>	<b>-188</b>	<b>-172</b>	<b>-63</b>	<b>16</b>
<b>Silver - New (US\$/oz)</b>	<b>\$ 16.69</b>	<b>\$ 17.14</b>	<b>\$ 15.71</b>	<b>\$ 16.21</b>	<b>\$ 17.35</b>	<b>\$ 20.50</b>		
<b>Silver - Old (US\$/oz)</b>	<b>\$ 16.69</b>	<b>\$ 17.14</b>	<b>\$ 15.71</b>	<b>\$ 16.21</b>	<b>\$ 16.85</b>	<b>\$ 19.50</b>		

All values in million ounces unless otherwise specified

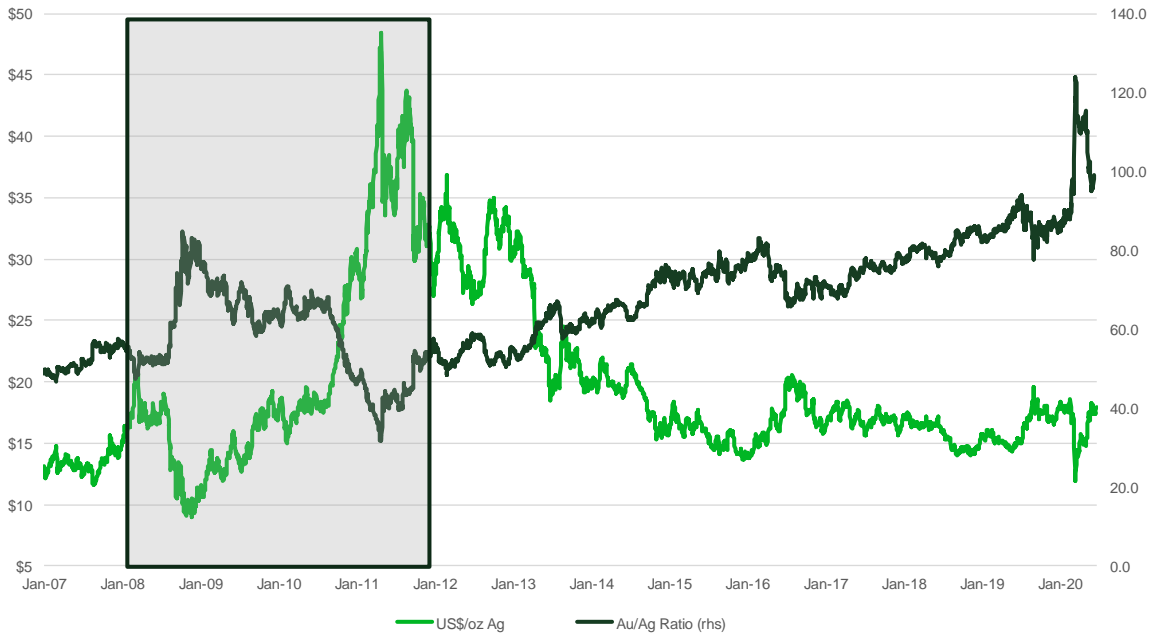
Source: GFMS, Metals Focus, TDS Commodity Strategy, TDS Equity Research

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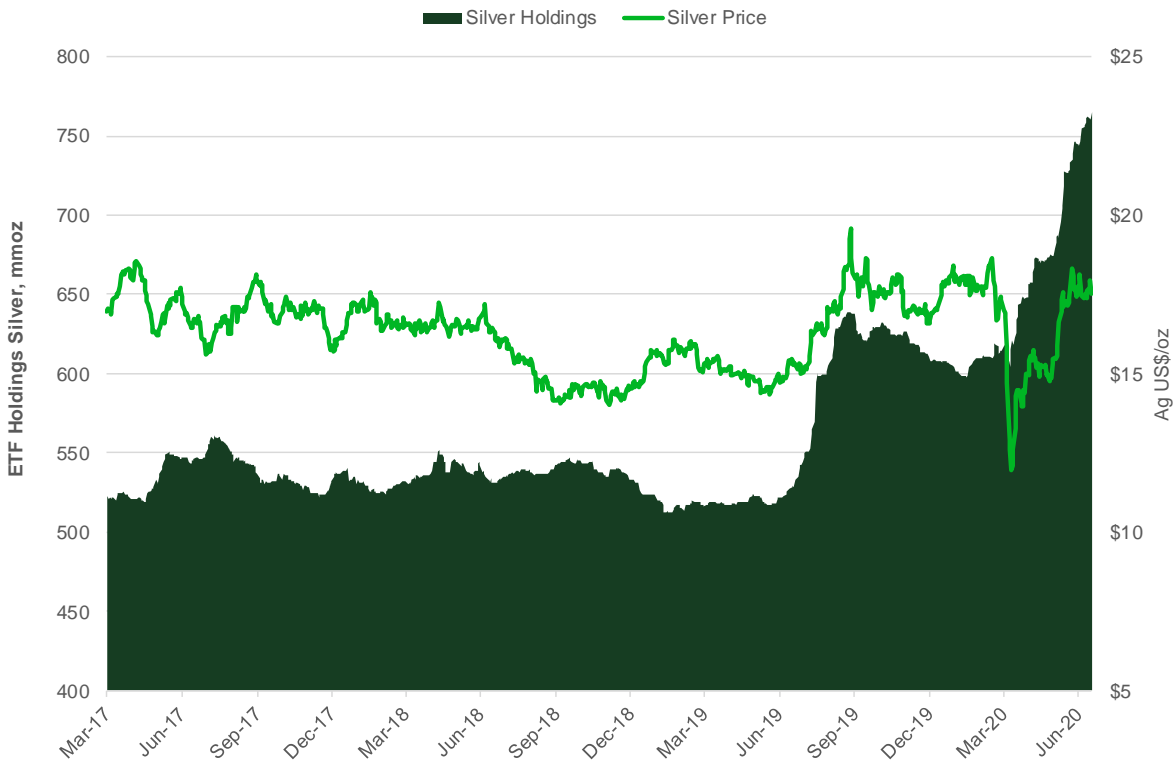
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**Exhibit 3. Historical Silver-to-gold Ratio**



Source: Bloomberg, TD Securities Inc. estimates

**Exhibit 4. ETF Investment Demand (mmoz)**



Source: Bloomberg, TD Securities Inc. estimates

**Pan American Silver (PAAS, PAAS-T) – US\$35.00 Target Price**

We have updated our estimates for Pan American to reflect the staged restart and ramp-up of the company's operations through Q2/20. Following the restart of Huaron and Morococha on June 6, all nine of the company's operations are now back in production. However, given the measures that remain in place to mitigate the spread of COVID-19, management does not expect its operations to return to full capacity over the near term, with production expected to range between 70–90%, with higher capacities at its open-pit mines.

We currently model 2020 production of 19.7m Moz Ag (previously 20.1m Moz) at cash costs of \$11.37/oz Ag from the Silver Segment, and 423koz Au (previously 410kz) at cash costs of \$895/oz Au from the Gold Segment. Pan American was very well-capitalized at the end of Q1/20, with \$147mm in cash and a further \$91mm in short-term investments, along with \$240mm undrawn under its \$500mm revolving credit facility. Subsequent to Q1/20, the company has monetized over \$80mm of investments and exploration properties, further strengthening its cash position.

**First Majestic Silver (AG, FR-T) – C\$16.50 Target Price**

We have increased our Q2/20 production estimates for First Majestic to reflect an earlier-than-expected restart of the company's operations in Mexico. All three of the company's mines were able to restart towards mid-May, with its operations expected to reach full capacity again in early-July. We now forecast 2020 production of 11.0Moz Ag (previously 9.9Moz) at total cash costs of \$6.87/oz.

In addition to our updated production and silver price forecasts, we have also reduced the potential tax liability associated with the Advance Pricing Agreement related to the San Dimas silver stream by 50%, which increased our NAVPS by \$0.44. Our reduced liability assumption follows First Majestic's announcement on May 13 that it has formally initiated a NAFTA arbitration process against Mexico for what the company views as a violation of international law.

**Endeavour Silver (EXK, EDR-T) – C\$3.00 Target Price**

We have revisited our estimates in Q2/20 to reflect the announced mine closures and subsequent restarts of Endeavour's mines in Mexico due to COVID-19. We have approximately doubled our estimates for the number of days the operations were in production in Q2/20, as well as reduced unit operating costs to reflect the increased assumed tonnage milled for the quarter and initiatives to reduce costs by the company. We continue to assume that all mines will operate normally from Q3/20.

**MAG Silver (MAG, MAG-T) – C\$26.00 Target Price**

We have updated our estimates to reflect the company's Q1/20 financials and total capital spent to-date on Juanicipio. We currently forecast total remaining development capital of \$305mm (100% basis), with ~\$220mm remaining to be spent this year, following just ~\$18mm spent in Q1/20. We forecast that MAG will end the year with a positive cash position of \$15mm, which includes the C\$60mm private placement previously announced this quarter. We continue to model that first pre-commercial ore from Juanicipio will be milled in Q3/20 at Fresnillo's mill, ramping-up to commercial production in H2/21 following the completion of the Juanicipio mill.

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## Exhibit 5. TD Securities Target Prices

	Target Price			Return to Target	Recommendation		Risk Rating	Share Price
	Old	New			Old	New		
<b>Silver companies</b>								
Pan American Silver	\$27.00	\$35.00	↑	24.6%	BUY	BUY	HIGH	\$28.26
First Majestic Silver	C\$15.50	C\$16.50	↑	32.5%	BUY	BUY	HIGH	C\$12.45
Endeavour Silver Corp.	C\$2.50	C\$3.00	↑	4.2%	HOLD	HOLD	HIGH	C\$2.88
MAG Silver Corp.	C\$22.00	C\$26.00	↑	44.7%	Spec. BUY	Spec. BUY	SPEC.	C\$17.97

Source: TD Securities Inc. estimates

## Exhibit 6. TD Securities Target Multiples

	Current Target	Current Valuation				Previous Target	Previous Valuation			
		2021E EBITDA		5%NAV			2021E EBITDA		5%NAV	
		Weight	Multiple	Weight	Multiple		Weight	Multiple	Weight	Multiple
<b>Silver companies</b>										
Pan American Silver	\$35.00	40%	15.00	60%	2.50	\$27.00	40%	15.00	60%	1.50
First Majestic Silver	C\$16.50	40%	20.00	60%	2.20	C\$15.50	40%	20.00	60%	2.50
Endeavour Silver Corp.	C\$3.00			100%	2.20	C\$2.50			100%	2.00
MAG Silver Corp.	C\$26.00			100%	2.00	C\$22.00			100%	1.70

Source: TD Securities Inc. estimates

## Exhibit 7. TD Securities NAV and EBITDA Revisions

	NAV (\$/sh)			EBITDA (\$mm)						
	Old	New	% Change	2020E		2021E				
				Old	New	Old	New			
<b>Silver companies</b>										
Pan American Silver	\$10.87	↑	\$11.19	3.0%	\$387	↑	\$389	\$654	↑	\$674
First Majestic Silver	C\$2.71	↑	C\$3.43	26.6%	\$61	↑	\$78	\$214	↑	\$223
Endeavour Silver	C\$1.29	↑	C\$1.38	7.2%	\$2	↑	\$7	\$34	↑	\$36
MAG Silver Corp.	C\$13.70	↑	C\$13.81	0.8%	n/m		n/m	n/m		n/m

Source: TD Securities Inc. estimates

## Exhibit 8. TD Securities EPS and CFPS Revisions

	EPS (\$/sh)				CFPS (\$/sh)				
	2020E		2021E		2020E		2021E		
	Old	New	Old	New	Old	New	Old	New	
<b>Silver companies</b>									
Pan American Silver	\$0.32	↓	\$0.31	\$1.10	↑	\$1.15	\$1.50	↑	\$2.32
First Majestic Silver	(\$0.04)	↑	\$0.00	\$0.34	↑	\$0.38	\$0.36	↑	\$0.87
Endeavour Silver	(\$0.14)	↑	(\$0.12)	\$0.08	↑	\$0.09	\$0.02	↑	\$0.24
MAG Silver Corp.	n/m		n/m	n/m		n/m	n/m		n/m

Source: TD Securities Inc. estimates

## Exhibit 9. Justification of and Key Risks to Target Prices

Company Name and Ticker	Target Price	Rec.	Risk Rating	Justification of Target Price	Key Risks to Target Price
First Majestic Silver Corp. (C\$) FR-T, AG-N	\$16.50	BUY	HIGH	Our blended target price is derived from a 60% weighting on 2.2x our corporate NAV5%, and a 40% weighting on 20x our 2021E EBITDA estimate. Our NAV5% is based on a long-term silver price of \$20.00/oz. Our valuation approach is in line with the multiples we assign to other silver producers in our precious metals coverage universe.	Key risks to our target price include silver, gold, lead, zinc, and energy price risk; foreign exchange risk; financial risk, including risks to the cost and availability of financing; forecast risk, including capital and operating cost risks, risks related to deposit size, grade, and mineability, and risks to production levels; technical risk, including risks associated with the use of multiple mining techniques and their individual feasibility and risks to the process flowsheet that we envision; infrastructure risk, including the availability of power and its reliability; transportation risk; political risk, including changes to the legal and fiscal regimes; permitting risk; community social relations risk; security risk, including the potential for violence and access disruptions; labour relations risk; illegal mining risk; ongoing tax dispute; environmental risk; title risk; litigation risk; surface rights risk; and staffing and key personnel retention risks. First Majestic could face operational impacts across its platform due to COVID-19 restrictions.
Pan American Silver Corp. (US\$) PAAS-N,T	\$35.00	BUY	HIGH	Our blended target price is derived from a 60% weighting on 2.5x our corporate NAV5%, calculated using our long-term silver price of \$20.00/oz, and a 40% weighting on 15x our 2021E EBITDA. Our valuation approach is in line with the multiples we assign to other mid-tier silver producers in our coverage universe.	The key risks to our target price include silver, gold, lead, zinc, and energy price risk; foreign exchange risk; financial risk; forecast risk, such as capital and operating cost risks, risks related to deposit size, grade, and mineability, and risks to production levels; technical risks, including risks associated with the use of multiple mining techniques and their individual feasibility and risks to the process flowsheet that we envision; infrastructure risk, such as the availability of power and its reliability; transportation risk; political risk, including the potential for resource nationalization and changes to the legal and fiscal regimes; permitting risk; community social relations risk; security risk; labour relations risk; illegal mining risk; environmental risk; title risk; litigation risk; surface rights risk; and key personnel retention risk. Pan American could face operational impacts across its platform due to COVID-19 restrictions.
Endeavour Silver Corp. (C\$) EDR-T, EXK-N	\$3.00	HOLD	HIGH	Our target price is derived from a 100% weighting on 2.2x our corporate NAV5%. Our NAV5% is based on a long-term silver price of \$20.00/oz. Our valuation approach is in line with the multiples we assign to other silver producers in our precious metals coverage universe.	Key risks to target price include: Silver and gold price risk; foreign exchange risk; financial risk, including risks to the cost and availability of financing; forecast risk, including capital and operating cost risks, risks related to deposit size, grade, and mineability; technical risk, including risks associated with the use of multiple mining techniques and risks to the process flowsheet that we envision; political risk, including the potential for resource nationalization and changes to legal and fiscal regimes; permitting risk; community social relations risk; security risk, including the potential for access disruptions; risks related to the cost and availability of equipment and consumables; environmental risk; and key personnel retention risk. Endeavour Silver could face operational impacts across its platform due to COVID-19 restrictions.
MAG Silver Corp. (C\$) MAG-T,N	\$26.00	Spec. BUY	SPEC.	We have calculated our target price by applying a 2.0x target multiple to our corporate NAV. Our calculation of MAG Silver's NAV is based on a 5% discount rate and a long-term silver price of \$20.00/oz.	The key risks to our target price include: silver, gold, zinc, lead, fuel, power, and water price risks; financial risks, including risks to the cost and availability of financing; foreign exchange rate risks; forecast risks, including capital and operating cost risks, risks related to deposit size, grade, and mineability, and risks to production levels, metallurgical recoveries, and smelter terms; market risks; technical risks, including risks associated with underground mining and risks to the process flow sheet that we envision; infrastructure risks, including the availability of power and its reliability; transportation risk; political risks, including resource nationalization risk, and changes to the legal and fiscal regimes; permitting risk; community social relations risks, including indigenous people risk; security risks, including potential for violence and access disruptions; labour relations risk; illegal mining risk; risks related to the cost and availability of equipment and consumables; environmental risk; title risk; litigation risk; surface rights risk; access risk; non-operating risks, including non-controlling interest of a primary asset; and key personnel retention risk. MAG Silver could face development and operational impacts due to COVID-19 restrictions.

Source: TD Securities Inc.

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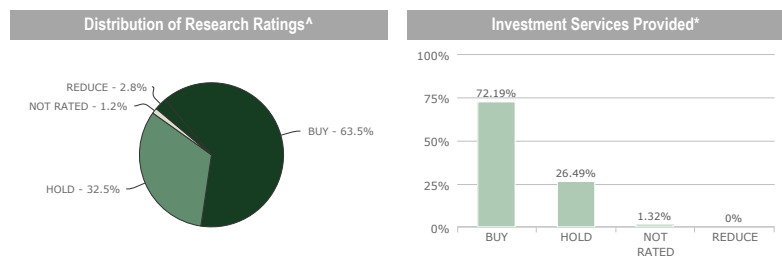
Company	Ticker	Disclosures
Endeavour Silver Corp.	EDR-T	9
First Majestic Silver Corp.	FR-T	9
MAG Silver Corp.	MAG-T   MAG-N	9
Pan American Silver Corp.	PAAS-Q   PAAS-T	9, 16

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Current as of: June 26, 2020

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