 

TDV's Silver Stars

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For A Concentrated Macro Bet on Silver or for Long Term Buy and HODL Portfolios

- **Buy / Accumulate Pan American Silver Corp (PAAS:TSX)**
- **Buy / Accumulate Endeavour Silver Corp (EDR:TSX)**
- **Buy / Accumulate Alexco Resource Corp (AXR:TSX)**

Given the strength of this sector in recent weeks it may be wise to split up some buying, and to fiat cost average into a position; but the "buy" means to act right away, and not mess around long either. It is likely that we are on the cusp of a new precious metals bull market, but need confirmation from US dollar trends more broadly. No, gold and dollar do not just go up together because they are considered to be a safehaven. This is one of the biggest misconstrued ideas in the industry, but par for the course. It is easy to dispel, actually. Just put a little effort into the study of a historical chart and you will notice that almost every instance where the dollar f/x and gold rise in unison it is after the former has fallen a lot first.

Still, the opportunity today is either for long term investors who are underweight silver producers in their portfolios or for swing traders looking to pick up some beta on a nascent break out in silver prices.

We have a treat for you!

A big decision was made behind closed doors, over channels spanning continents.

We decided rather than reproducing the TDV stock portfolio in one fell swoop, thereby inundating you with a 30 or 40 page pdf file, we would just rebuild it, segment by segment, and slowly put it together over the next few months -starting with the silver shares. Their time has come in the way that it came for the gold miners when they were getting slaughtered in what one shrewd observer coined as a *'reverse mania'* in 2015.

Only, we are not right at the extreme in that kind of bearish sentiment. Close, perhaps, but lift off has already occurred. I'll explain my views on silver in a moment but suffice to say that gold and silver have been a core recommended asset in the TDV portfolio from the beginning. The only change we made since we started this letter in 2010 was increase the allocation to the gold share sector again a little early in 2013 in the correction.

After that, we rearranged the structure in late 2015, fortuitously at the bottom of the bear market in both gold and silver, but have not really touched it since then. This is the first attempt at a reconstruction, which was always planned to be released when we thought the bull market is going to start. We could still be wrong, and the gold bears can still be right. But I don't think so. And for the record, I have not hedged a darn thing. I am one of the few bulls that sat here and confidently told you to sell your gold stocks at the top of the market in 2016 because it was probably premature, and then in the subsequent correction stood my ground and said the market would not fall to new lows, that the 2015 bottom was the end of the bear. The qualification is that most people think in two dimensions, so for them that meant we were bullish, but we weren't. I have alway qualified my long term bullish call -saying that the bull market won't start until the US dollar and S&P 500 confirm their own bear market trends in the charts. That continues to be elusive. The fundamentals argue for it but the technicals hold out. I think barely though. Just barely. For, remember, the broad equity market peaked almost two years ago. Seems like people are inclined to forget this. But that is the reason there is so much controversy about whether the Fed should cut rates now or not. And that is in turn why gold and silver are revving up.

The bears only have one hope though. And that isn't deflation. Deflation can't happen now. It is too late, and it is a political decision, not an economic law at this point. Temporary credit contractions if they are a surprise will be immediately offset. Trust me. I've argued this point for three decades even with fewer imbalances.

Only one thing can hurt us. If the Fed acts with such vicious resolve to reflate that no one will doubt that it can make stock prices rise, then and only then will we be early here... other than due to a short term correction.

There is very little appetite or resolve to let "real" interest rates rise or to avoid inflating in a crisis.

Many of you may disagree with me about the US dollar but often that is because you don't understand my frame of reference and what exactly it is that I'm saying. But it doesn't matter. Our short positions in the f/x market against the USD are a small component of the overall portfolio strategy. Please enjoy today's.

The TDV Summer Roll Out - Concentrated Portfolios

A brief word on my plan for the portfolio and the role this report has in its design. Today's is the first in a series to be released over the next few months. They will include separate reports on the following:

1. Top 3 Uranium producers
2. Top 5 Gold producers, alpha
3. Top 5 Gold producers, beta
4. Top 10 Mineral Resource Explorers

Compared with most of the economy, even compared with most of the mining industry, the gold sector is quite small, but nowhere near as small as the silver and uranium mining sectors, which is why we are only picking three in each of those sectors. The total number of companies we will be recommending after all is said and done will not exceed 25-26. It may even be less if there is any overlap between the alpha and beta gold producers. Not likely much if any though. Also, many of them will probably include companies that we already recommend in the present TDV stock portfolio. But regardless, only 20 will be in the final TDV portfolio when the roll out has finished. We actually cap it deliberately to force some discipline and eternal re-evaluation.

However, the main purpose of these segmented, or mini, portfolios is to help the *concentrated investor*.

The concentrated investor is typically a relatively sophisticated swing trader who understands risk management as well as trading. They might only be in for the intermediate swings, or maybe just a few days.

Unlike the TDV buy and hold portfolio, they aren't looking for value; these investors might rotate from one sector to the next with basic criteria no greater than what we have in our titles above. But mostly their styles aim at buying exposure to the swings in sentiment, positive or negative, affecting whatever equity sector.

The TDV portfolio, which will be a strategic selection from this list, is aimed at investors willing to buy and hold throughout the pm bull market cycle. Bull markets can last from 3 to 7 - or more - years sometimes.

But sometimes, subscribers have their own timing ideas, and they might want to know at different times our top picks. Not everyone can or wants to buy the whole portfolio, at least not all at once.

Brief Synopsis

The criteria we used to pick our top 3:

1. Shares should have liquidity
2. Company is a producer or near producer
3. The potential for growth is palpable
4. Mine life is over 5 years
5. Valuation is not excessive
6. Balance sheet is strong
7. High % silver in revenues, and
8. Risk: Geographic or geopolitical risk is low or predictable

The only thing we really ignored was management, at least objectively. But we did apply that filter in a subjective fashion nevertheless. Except, we decided to heavily weight factors like balance sheet and value.

Applying our filters, we ended up with a sexy portfolio of silver stocks that we think will outperform (i.e., the SLV ETF, the Global X Silver Miners (SIL) ETF, or any unleveraged average).

That is the aim of concentrating, because it is a higher risk strategy. So it requires paying attention and becoming more of a trader than an investor, which is not for everyone.

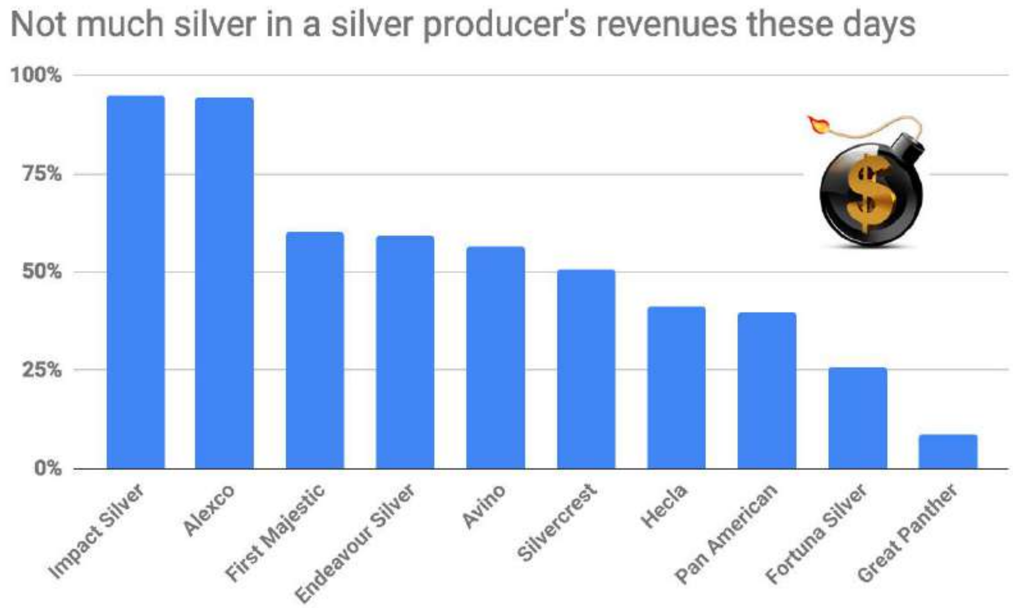
The three silver companies we picked include ***one that has a shuttered silver mine that might get restarted, one is soon to be a 5 mine producer, and one is sitting on a hill of silver***.

Believe it or not the hardest part was to find companies whose revenue stream was at least 50% from silver sales. Even Pan American's silver share of revenues has declined to 40% now, although ***that is a function of*** low silver prices. Moreover, the actual dearth of pure silver plays is probably a symptom of the reverse mania.

To be sure, both of these factors make up our conviction about the contrarian value of this call.

In other words, the lack of pure silver plays, like the extreme in the gold/silver ratio these days, probably reflects extreme bearish sentiment about the business of mining it. This will reverse when the gold/silver ratio falls to its cyclical lows like it does at the top of gold/silver bull markets (see long term charts on pp. 7).

Then, everyone will want to be a silver producer. In fact, a more normal gold/silver ratio (55-65 imo) would put silver back into a price range where the share of silver revenues for companies like this will grow a lot.



The three companies that made the cut for the TDV select mini portfolio own or control enough mines between them to offer the investor *some* diversity depending on how they weight their holdings.

The current TDV portfolio already has two silver companies but both failed to make the cut for inclusion in this portfolio: Fortuna Silver and First Majestic.

Fortuna is a great company but is becoming primarily a gold producer now. We are keeping it in the portfolio.

Goodbye First Majestic

However, we are cutting **First Majestic (NYSE:AG)** from the TDV portfolio in a long overdue step on account of its *poor* valuation and *relatively* poor financial performance over the years.

I don't want to create a whole report about why we are cutting this company from the portfolio. And I do it with some trepidation as I discovered this company in 2008 for subscribers and clients in a pre TDV life at around $2 per share. I briefly stopped recommending it in 2010 as it went parabolic, and only picked it up for the dollar vigilante again in late 2015 at $3.39, i.e., practically at the very bottom of the subsequent bear cycle. The stock went to $20 quickly on the 2016 premature pm rally.

For all intents they achieved what they set out to do, which was to become North America's largest silver producer.

Neumeyer put it together the way that Giustria put together Wheaton River Minerals before it merged with Goldcorp back in the early part of the last bull market in gold. He accumulated a bunch of silver properties that weren't worth a dime at the trough of a silver cycle that was worse than the last one. And really that's all there is to it. The central banks who tried so hard to depress the price of gold and silver in the late nineties did these guys a favor. They were able to accumulate a bunch of subpar assets cheap, spin them into a deal, and voila, as the price of the commodity ultimately obeyed economic law the assets suddenly became worthwhile.

But, like in Goldcorp's case, when companies created by investment bankers, merge too often, and roll themselves into larger and larger entities as the bull market progresses, there is an ultimate hangover.

I see it underperforming in the future because it suffers too much hype from its own success, some of the excesses have yet to be wrung out, and its valuation is too rich to justify for TDV subscribers. There are many ways to value a company.

I like the above way as a quick fix on relative values in a sector, but any way we slice it FM is too expensive. Most of these companies are already valued for over $20 silver. At any rate, we are booking a gain of nearly 200% on the trade over four years, and replacing it with a peer or two that we believe is poised to perform better during the next bull cycle. The picture on the left is one of their bars - I don't remember which mine - but I thought it was neat to own something right from the miner. For less concentration, throw Fortuna in your *mini* portfolio.

INVESTMENT FEATURES – EXPANDED AND BULLETED SUMMARIES

>> Pan American Silver Corp is the largest most diversified and liquid pure play silver producer we could find on this continent that is well managed and whose shares could be considered cheap. The shares offer some beta over the price of silver but most importantly, they offer some additional speculative upside from two recently acquired projects. The market may also appreciate management's effort to sell off gold assets.

>> Endeavour Silver Corp is an ambitious Mexican based junior silver producer with 3-½ operating mines, and a new one (Terronera) that awaits final permits and a production decision. The company is led by a strong exploration and promotional group from Canada that has grown by repeating a working formula.

>> Alexco Resource Corp has revived one of Canada's oldest and richest silver mining districts in the Yukon and is ready to restart production from one of its veins with minimal initial capex. We like it for its optionality and leverage to higher silver prices, but mainly its pure silver component of revenues - which makes it unique.

Why Silver?

Foremost because it is still a ***precious*** metal, and a commodity. We know that gold leads the commodity cycle and we know why: because the commodity cycle is a monetary phenomenon. We also know that gold sometimes also leads bear market cycles in the US dollar on the foreign exchange market. And we know the reason we want to own both gold and silver: protection from the coming crisis in the current monetary order.

I use the term monetary order because there is a lot of disagreement on the nature of the system, but for me it is simple, it is a dollar standard. The dollar is the world's trading and investment currency - reserve currency.

What that means though is that if the dollar didn't exist most of the other fiat wouldn't either.

Let that sink into your mind. Maybe I'll write about it one day.

Here is what is behind the unraveling of this system, and the case for gold, silver, and crypto:

1. The Fed has lost the resolve to defend USD as it would bankrupt already insolvent governments
2. Peak dollar - utility as a trading currency is on its way out and global investors saturated in dollars
3. Trump trade policy is directly bearish for trade and investment demand
4. It is a risk (off) currency whose returns rely on RELATIVE stock price trends

The bull market in US assets has likely peaked. The risk of recession is high. We've been saying that for two years or more. Now others are saying it. But this one will be bad. Government spending became one of the driving points of the last bubble. That's why the debt has exploded. The next downturn will be inflationary, and they will be scrambling to inflate more and more to keep rates from rising too fast so they can avoid any direct defaults. Rather they are going to be forced to default through inflation like the Russians did the ruble.

That will send ripples through a world hung and drenched in dollars. That's where we're at. This downturn is going to reveal a lot of problems for the government, especially in its finances. The government cannot afford for interest rates to rise, and this means they are stuck in an inflationary policy that won't end until they've inflated their debts away. That's the precious metals narrative, and it is also the cryptocurrency driver.

Why shouldn't it also drive silver!

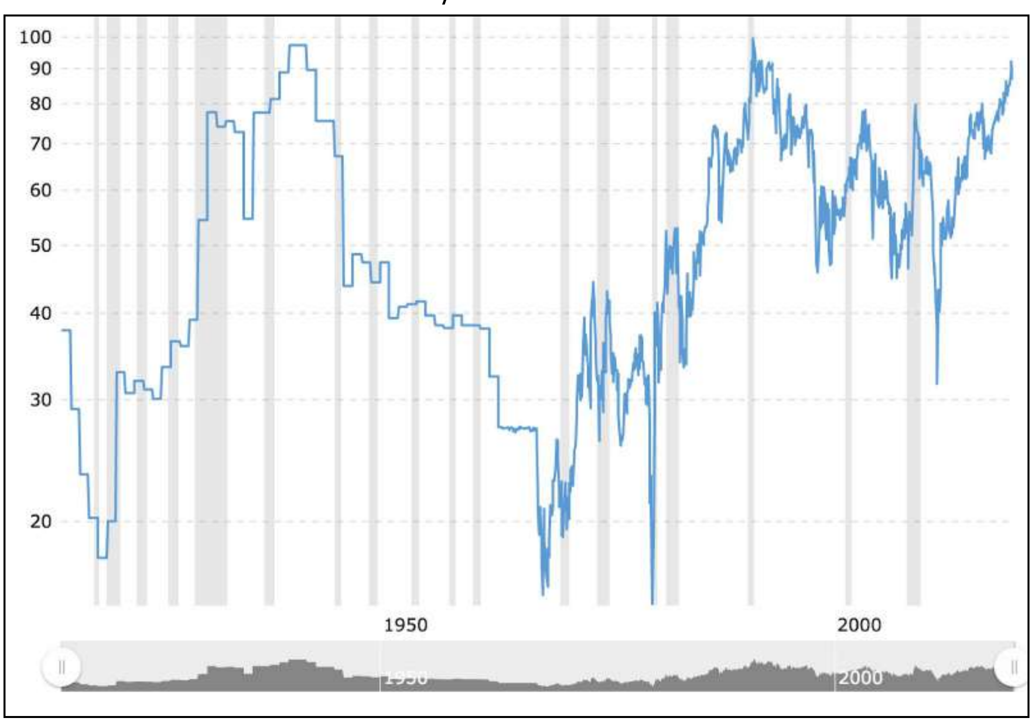
Indeed, historically, that is what happens next - in light of gold's break out we should now see a break out in silver prices, and then a break *down* in the US dollar's foreign exchange rate against the key fiat currency pairs. The supply/demand fundamentals (elaborated below) on silver are generally bullish. If the silver bugs are right and there has been some capping of the price then that may have only exacerbated those imbalances.

And silver moves fast. This upturn is only the beginning.

A more normal ratio at the current gold price would imply a fair valuation for silver in my model of around $27 today, which is well above the 2016 high for silver.

That would confirm a nice 5-year double bottom, and potentially reverse most of the bear market trends in the chart. If it is a double bottom, or a bottom of any sort, the confirmation break out above the $21-22 handle might suggest a run to $30 either quickly, or soon after. And that could happen with gold hardly budging -just by pushing the ratio down to half its current value- although it's more likely that gold will rally too, just less.

GOLD/SILVER RATIO



With gold going to make a run for the $3-5k level this next decade, the upside for silver is tremendous.

At peak cycle, if Sprott and the silver bugs got their way, it could fall to a ratio of as low as 20x, which would imply a silver target of around $250. Imagine $10k gold. At 20x that makes silver worth $500.

That's not wholly unreasonable given the ***unprecedented*** moves of the central bank in this late stage chapter of imprudent government finances. To keep interest rates from going up too fast they are going to have to inflate hard, which means adding ever more to the debt, and that ultimately will lead to a f/x crisis.

The shares on this list should in 5-10 years be worth 5-10 times what they are today. That's what happened in the most recent bull markets - both before and after 2008 - and I'm being conservative. Pan American rose 20 fold from 2001 to 2007 as it came into its own. It's now a bigger company and not likely to grow as fast, but I still see a 10-bagger based solely on my present forecasts for gold and silver, which, mark my words, will look conservative before this thing is over. Over the course of the next bull cycle in the precious metals. Stocks like Endeavour and Alexco, I can't even imagine the upside with silver prices possibly hitting $250 in 10 years.

Supply and Demand

Silver has been in a chronic supply deficit over the past decade, according to estimates of demand by The Silver Institute where this data came from. While silver, like gold, experiences what Rothbard called a "reserve demand", mostly, most surplus silver gets consumed into the infrastructure and by industrial uses.

It is less scarce than gold and more economic now that there is less structural monetary demand bidding it out of production. What's more, the supply of scrap silver and its recycling is heavily dependent on the silver price, with peak activity coinciding with the top in silver in 2011. That is, scrap metal supply is elastic.

The line in the chart represents ESTIMATED investment demand (jewellery, coins and bars) as a percentage of total demand. It is important to note that in reality demand and supply are equal, and deficits or surpluses involve some assumptions. Since it is impossible to know the true nature of reserve or investment demand, this number is usually a statistical net (or an error) between supply and all identifiable sources of demand.

Many silver bulls believe that silver is manipulated. The same is true of gold. My position in these cases is that sure they try but the market is bigger than they are and they often fail to cap prices. The same will go for interest rates, which they use to manipulate the value of their paper higher. Of course, the truth is, we are all manipulators. Every time you enter the market you have an impact on it. Some players more than others.

But the market is bigger than the State. That may not be the case in the State's debt market. But it is the case in most other markets, thankfully. Hence in the long run the State always loses on its manipulations.

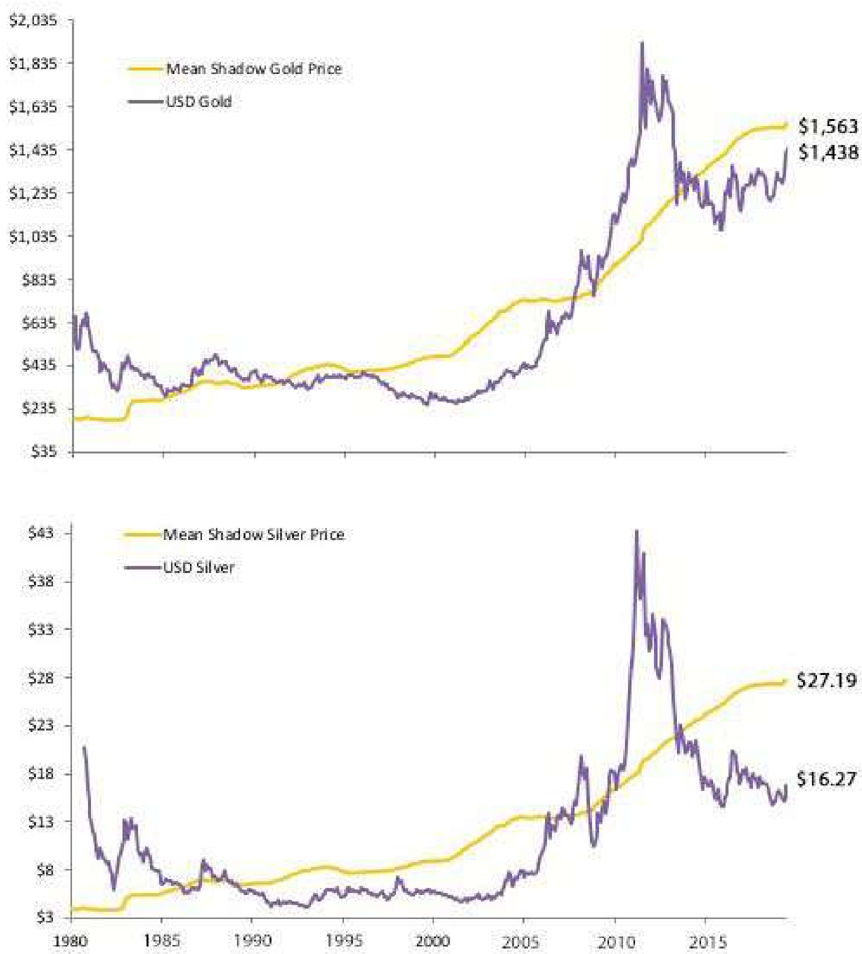
So I ignore the minor impact it has on occasion. It hasn't capped silver directly in the market. It has done this more effectively by waging disinformation campaigns, including the inflation of asset prices by creating an unsound unsustainable boom. By kicking the can down the road and dissuading people from panicking.

As evidence I will point to one thing: look at all the commodity prices. They are all down along with silver. And what's more, gold isn't. The gold/silver and gold/commodity ratios are at record highs, reflecting the fact that relative to most commodities gold is actually hanging on to its premium. They aren't able to cap it, that is.

I never refer to manipulation in my analysis not because I deny its existence but because I don't think it deserves any attention. Usually there are more proximal causes and explanations for price fluctuations.

Shadow Silver Price

This works better with gold because in silver and other commodities there are more factors at work on both the supply and demand side - other than purely monetary ones - and because technology may make the supply curve for silver more elastic than we know it does for gold. Nevertheless, it may still be instructive to apply the same valuation model that I apply to gold prices to silver as well. Certainly I can tell you, they don't detract.



A quick explanation, but I will spare you all the reasoning in order to remain brief. I am a lifelong student of economics and well learned in the Austrian School theories, especially the theories (and history) regarding money and credit. I've reconstructed the US money supply figures from the Fed.

We do not apply the typical commodity model to gold because it experiences a reserve demand that prevents it from being consumed in the infrastructure like other commodities and because this demand bids up its value and prices it out of many uses - it makes it uneconomic for anything except to hoard as a monetary asset.

As mentioned earlier, silver experiences some of that on occasion, but not as persistently, which is why the gold/silver ratio is so volatile.

As a result, like most commodities, but unlike gold, silver prices are susceptible to changes in mine output. It has an elastic supply curve like many commodities whose supply relies on economics and technology. Gold has an inelastic supply curve by contrast.

It is less sensitive to price changes. Its price is also less sensitive to mine supply. But since silver doesn't get hoarded as much as gold (in gross value terms) shortages are frequent.

Another way to put it is that ending stocks in gold tend to be many times its annual mine supply, and the price of gold is not as sensitive to changes in annual gold output in the same way that are other commodity prices.

As a result, my shadow gold price indicator attempts to adjust the gold price for only two factors: increases in the US money supply and annual additions to world gold stocks. The charts above each display the real gold or silver price next to its "shadow" indicator. The shadow indicator for gold is calculated using two base years: 1913 and 1945. I simply adjust the gold price in those years for the money and gold supply growth since then, and average the two to get the figure marked by the yellow line in the chart. The current value of this indicator is $1563. Using this indicator we could say that represents fair value. For silver, I simply made one assumption - i.e., that the fair value for the gold/silver ratio should be 57.5x, which is basically the last century's average.

I can write a paper on why I like this indicator, at least for gold.

I like it for silver as well, however, and note that it implies a deeper discount than in gold.

Timing

As you saw in the gold/silver chart on pp. 6 above, and as I have explained, the gold/silver ratio is at an historical extreme. Over more than 100 years gold has traded between roughly 20x silver up to 100x, and is closer to the latter extreme today. I have also suggested to you that gold leads the commodity complex and that silver is often treated more like a regular commodity than gold, i.e., it follows. In terms of valuation I have argued for a price north of $25 in the present moment. But in terms of timing, I think gold and bitcoin - let alone Trump's economics - have been telling us to expect weakness in the foreign exchange value of the US dollar, sooner than later, which I believe will catalyze the commodity groups, including silver. Finally, I have seen some evidence of switching from gold to silver in the tape, personally, over the past couple of weeks.

Pan American Silver Corp	PAAS - TSX and NASDAQ
Website	https://www.panamericansilver.com/
Silver, % Revenues	40% (including Tahoe)
No. Producing Mines	10 mines
Mining Locations	Mexico, Peru, Canada, Bolivia, and Argentina
P&P (Ag), contained ounces	567Moz Ag + 5.4Moz Au
M&I (Ag), contained ounces	561Moz Ag + 12.1Moz Au
Expected Mine Life	> 10 years (for present P&P reserve)
Silver Production 2019 (e)	27Moz Ag + 165koz Au
LOM Annual Silver Production	45Moz + 400koz
Working Capital	US$772 million
Shares Issued	209,481,845
Market Capitalization	C$4,457,774,000
AISC LOM (US$/oz)	$11.50
NAV5, $15	US$3.1 billion
NAV5, $25	US$7.8 billion

Pan American Silver Corp (NYSE:PAAS, TSX:PAAS) owns ten operating mines across Canada (Bell Creek and Timmins West), Mexico (Dolores and La Colorada), Peru (Huaron, Morococha, Shahuindo, and La Arena), Bolivia (San Vincente) and Argentina (Manantial Espejo/COSE/Joaquin), expected to produce 570-620,000 gold ounces and 26.6-27.6 million silver ounces at an AISC of $7.75-$10.75/oz silver **in 2019**, implying an operating cash flow of US$300-400 million ($1.50-$2 per share) at $16 silver and $1400 gold.

The company is looking for a buyer for its Canadian mines, which are primary gold producers, so it can maintain its silver focus. The company also owns two other significant assets, which are company makers if they ever see the light of day: ***the newly acquired Escobal mine in Guatemala capable of producing 21 million silver ounces a year, and the stalled Navidad project in Argentina with the potential to produce 275.5 million silver ounces over a 17 year mine life***.

Under its previous owner Tahoe Resources, in early 2017 the Escobal mine was shut down by the Guatemalan government following protests from the local community. Tensions reached a fever pitch when Tahoe security personnel opened fire on some of the protestors using rubber bullets. The affected protestors, financed by certain anti-mining NGOs, filed a lawsuit against the company in the Supreme Court of British Columbia. Tahoe was on the path to ruin, with investors having given up on the company as a lost cause. But in what could either be seen as a brilliant move or the heights of lunacy, Pan American proposed to acquire Tahoe last November, diluting its own shareholders by 32%. Within a year of the acquisition it has already reached a settlement with the affected protestors. The company has experience operating in Bolivia, a no-go zone for all other majors. So it might just manage to turn around the situation with Escobal.

While we are including Escobal in our NAV calculation and allowed it to influence our perspective on the company's growth trajectory, some caution is warranted, drawn from its own history. In 2010, PAAS acquired Aquiline Resources for their Navidad project in Chubut province, Argentina. Aquiline was stuck with a dead asset, in this case due to a provincial law that prevented open pit mining and the use of cyanide.

PAAS swooped in thinking they could get the law changed.

In their Preliminary Assessment report, they expected Navidad to be in commercial production by 2014.

But to date, they have had no success, and Navidad is still a dead asset.

Regardless, neither Navidad nor Escobal give us the best reasons to buy this company. Pan American has a 25-year track record of giving silver investors what they want. It is one of the world's largest silver producers. It is one of the lowest cost silver producers among its large cap peers and operates in mining friendly jurisdictions, more or less. Gives us plenty of diversification in one company (with 10 mines spread around the world). It even pays a small dividend. And offers value as well as an anchor in our portfolios.

The shares are currently trading at 8-10 times this year's expected cash flows, and at a considerable discount to their potential value at prices for silver that come anywhere near our fair value estimate.

It's not easy to know what value they will offer when silver prices reach our long term $250 target in 5-10 years and gold reaches its $5k levels or more **following a decade of unprecedented central bank intervention into the capital markets and decades of excess in public and private expenditures**. The reason is that costs will change too. Profit margins are not likely to be much greater, and may or may not shrink. What will be greater is the fiat representation of the bottom line regardless of those facts. And it is likely that it will grow faster than the price of the product they're selling. So there is going to be leverage to silver prices. That of course cuts both ways. But we are making the bullish case.

Past bull markets offer the best clue as to the sensitivity of shares to the price of the underlying metal, and we can rest assured that the sensitivity is greater than 1.0 for most silver shares. In the last bull market 2001-08, PAAS shares gained 18 times, or 52% for seven consecutive years. It was starting from a smaller size then. But it is reasonable to see it turn into a 10 bagger given our long term gold/silver price forecasts.

Endeavour Silver Corp	TSX:EDR, NYSE:EXK
Website	https://www.edrsilver.com/
Silver % Revenues	60%
No. Producing Mines	4 mines
Mining Locations	Mexico
P&P (Ag), contained ounces	46,980,000 oz Ag + 477,000 oz Au
M&I (Ag), contained ounces	27,322,400 oz Ag + 290,400 oz Au
Expected Mine Life	~10 years
Metal Production 2019 (e)	4.4Moz Ag + 40koz Au
LOM Annual Silver Production	5Moz Ag + 40koz Au
Working Capital	US$ 46.8 million
Shares Issued	131,998,694
Market Capitalization	C$414,476,000
AISC LOM ($/oz)	15
NAV5, $15	US$50 million
NAV5, $25	US$435 million

Endeavour Silver Corp is a Mexico based silver producer listed on the TSX and NYSE stock exchanges, which grew by acquiring past producing properties, proving them up, and bringing them to production.

The company started its life as a producer in 2005 when its exploration team discovered the first of seven new orebodies at the Guanacevi mine, only half of which it has mined to date. From there it pursued the same sort of business model with Bolanitos (2007) and El Cubo (2012), although it is having trouble extending mine life at El Cubo now. However, their newest mine, El Compas, achieved commercial production in April. And their latest development project, Terronera, which will boost annual production by a sizable 5.1 million silver equivalent ounces, is in its permitting stages. So there is growth ahead here too.

The bad news is that Endeavour has guided lower on its original 2019 forecast of 8.1 to 9.4 AgEq million ounces for 2019, bringing it down to about 7.4 to 8.2 million AgEq ounces. And the AISC at their Guanacevi and Bolanitos mines is above current silver prices. Plus we suspect they will report higher costs ahead.

The company gets good marks for the productivity of its exploration team. They are good. I know their track record over the decades. It's a bit controversial because they are also very good promoters. Unfortunately, that's one negative. They don't hold back on hype and can be a bit loose with their projections in a bid to finance their ambitions. But they often come through. They've got the right address. We love Mexico.

Moreover, at a $25 silver price, with the addition of Terronera, a conservative estimate of production of 12 million AgEq ounces at an AISC of $18/oz, would generate a sizable $84 million in pre-tax income.

The shares are priced at a 3.7x multiple of that blue sky. And the market hasn't priced in any improvement in operating efficiency, especially at the struggling Guanacevi mine which is processing marginal ore.

We like this as a small little junior "producer" with potential sparkle in a silver bull market.

Alexco Resource	AXR:TSX
Website	https://www.alexcoresource.com/
Silver % Revenues	63%
No. Producing Mines	Emerging, permitting stages
Mining Location	Yukon, Keno Hill Silver District
P&P (Ag) contained ounces	30,453,000
M&I (Ag) contained ounces	53,108,000
Expected Mine Life	8 years starting 2020-21
Silver Production 2019	0
LOM Annual Silver Production	4,000,000 oz /yr in concentrate
Working Capital	$6.5 million
Shares Issued	116,994,570
Market Capitalization	$257,388,000
AISC LOM $/oz	$11.00
NAV5, $15	$100 million after tax USD
NAV5, $25	$200 million after tax USD

Alexco Resource Corp trades on the Toronto Stock Exchange under the symbol **AXR** and on the AMEX (US) stock exchange under the symbol **AXU**. Originally an environmental services company that agreed to clean up the old mine site at Keno Hill (Yukon), the company acquired most of the claims in one of the oldest and highest grade silver districts on this continent and maybe the world and became a miner in 2011 until 2014 when low silver prices forced the company to put the min on an enhanced care & maintenance.

The website says that the district produced over 214 million ounces of silver at an average grade of approximately 1,373 grams per tonne (44 ounces per tonne) during the first half of the last century.

In March, the company announced a positive pre-feasibility study with a mine plan that contemplates the processing of 430 tonnes per day of ore with average feed grades of 804 grams per tonne silver, 3% lead, and about 1% zinc from four deposits. The mine is expected to produce 4 million ounces of silver annually in high quality lead and zinc concentrates over an 8 year mine life. At current silver prices the project may generate a pre tax cash flow of around $20 million per year, and has an after tax NPV (5%) of $101 million.

The deposits are underground veins. To get an idea of their richness, the average gross silver value of the rock up there is more than $400 per tonne—over $600 including the lead and zinc. The high grades and vein style deposit means that the preproduction capital outlay will only be about $23 million to expand the present facility. Sustaining capex will be in the $70 million range but spread out over the life of the mine.

At a $25 silver price the valuation (NPV5) of this deposit doubles. The company is currently trading at a value that corresponds with that higher silver price so it is not cheap either. But it has a lot of leverage and is an institutional favorite in hot silver markets. The project is awaiting a water use licence from the government, which it expects to receive at the end of this year. Meanwhile, it is continuing to explore and develop Keno.

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