

BCP Research: First Majestic Silver (FRCN) - 1Q20 Results - Maintain 'Neutral', Prefer EDVCN 23s rated 'Swap - Positive'

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Mexico-based silver miner, First Majestic Silver ("Majestic"), released 1Q20 results showing softer revenues y/y and q/q, with the company holding ~292 koz of silver and ~700 oz of gold intended for sale following a sharp decline in price at end-1Q20. EBITDA was stronger y/y, with margins at 34%, but softer q/q on lower revenues and higher cash costs related to the unsold inventory and elimination of a diesel credit by the Mexican government. The company expects cash costs to decline with the conversion from diesel to liquified natural gas later in the year. Cash flow turned negative on lower EBITDA and working capital outflows. Nevertheless, the company ended the quarter with US\$145 mm in cash (40% cash to LTM revenue) and US\$205 mm in liquidity (56% liquidity to LTM revenue), including US\$65 mm in undrawn RCFs, and LTM net leverage of 0.4x.

FY20 guidance has been suspended due to the closure of San Dimas, Santa Elena and La Encantada, following the Mexican Ministry of Health's suspension of non-essential business activities beginning March 31st 2020. Mines have since been deemed essential, with operations permitted to restart May 18th 2020. Production is expected to normalize by early June. However, as a result of the decline of operations for the first half of 2Q20 and subsequent ramp-up, we expect 2Q20 results will be lower y/y and sequentially.

We evaluate First Majestic at 360 bps credit spread and cap volatility at 50%, implying a mid price of 120c v 124c fair value and a bond floor of 95c. Implied vol of 43% on the convert is tight vs. assumed vol capped at 50 but attractive vs. 100D realized of 90% and 69% in the options market. Presently, we still prefer 'Swap-Positive' rated EDVCN 23s (see May 21st 2020 note), with larger spread of implied vol on the convert compared to realized on the common and listed options.

	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	AG US Price
FRCN 1.875% 3/1/2023	157	119.6	(4.70%)	42.69%	2.38%	64.24%	9.59	\$9.38

* Source: Equity information sourced from Bloomberg. Convertible pricing as of May 22nd 2020.

1Q20 Financial and Operating Results:

- Total production decreased 1% y/y and q/q to 6.20 mm silver equivalent ounces
- Cash cost per oz of US\$5.16 per payable ounce of silver was 19% lower y/y but 38% higher q/q, the result of lower by-product credits tied to ~700 oz of gold shipped but not yet sold at end-1Q20, and higher energy costs at Santa Elena mine with the Mexican governments elimination of the diesel credit in 2020
 - The ~700 mm in unsold gold would have contributed US\$1.4 mm or \$0.44/oz in by-product credits, balanced by a 3% decline in gold production
 - The company's conversion from diesel to liquified natural gas later in the year is expected to reduce these costs
- All in Sustaining Costs ("AISC") were US\$12.99 per oz, up 1% y/y and 6% q/q as a result of higher cash costs, which were partially offset by decreased general and administrative costs and sustaining capex, as a result of travel restrictions tied to COVID-19

1Q20 Financial and Operating Results (continued):

First Majestic Operational Performance:	1Q20	4Q19	3Q19	2Q19	1Q19	y-o-y	q-o-q
Production							
Silver (million oz)	3.15	3.35	3.37	3.19	3.33	(5%)	(6%)
Gold (million oz)	0.03	0.03	0.04	0.03	0.03	1%	(3%)
Lead (million lbs)	0.00	0.91	1.91	2.45	2.66	(100%)	(100%)
Zinc (million lbs)	0.00	0.00	1.03	1.40	1.27	(100%)	#DIV/0!
Total Production (million oz silver equiv.)	6.20	6.23	6.64	6.41	6.27	(1%)	(1%)
Revenue per oz	\$13.89	\$15.48	\$14.61	\$13.05	\$13.84	0%	(10%)
EBITDA per oz	\$4.75	\$5.49	\$5.37	\$2.40	\$3.41	39%	(13%)
Cash Cost per oz (USD)	\$5.16	\$3.73	\$3.83	\$6.84	\$6.34	(19%)	38%
All-In Sustaining Cash Cost per oz	12.99	12.25	10.76	14.76	12.91	1%	6%
Total Production Cost per tonne	\$82.41	\$78.62	\$78.87	\$77.93	\$66.65	24%	5%

- Revenue of US\$86.1 mm decreased 1% y/y and 11% q/q, with the company holding ~292 koz of silver and ~700 oz of gold intended for sale at end-1Q20 following a sharp decline in silver and gold prices
 - The company states these unsold silver and gold inventory would have contributed an additional US\$5.3 mm to revenues, based on spot metal prices at end-1Q20
- EBITDA increased 38% y/y but decreased 14% q/q/, on lower revenues and higher cash costs
- EBITDA margins expanded 955 bps y/y but contracted 124 bps q/q to 34%
- Free cash flow was negative US\$33.7 mm on softer sequential EBITDA and working capital use, which outweighed the q/q reduction in capex
 - Working capital use of US\$15.3 mm was driven primarily by outflow related to prepaid expenses (-US\$4.0 mm), trade and other payables (-US\$6.1 mm) and unearned revenue (-US\$4.2 mm)
 - Capex decreased 19% q/q to US\$30.1 mm from US\$37.2 mm in 4Q19
- Cash and equivalents were US\$145.2 mm at year end, down 14% q/q
 - The company has US\$65 mm in undrawn RCFs, resulting in a total US\$204.9 mm in liquidity at end-1Q20
- Net debt increased 47% q/q to US\$42.1 mm, while LTM net leverage expanded slightly to 0.4x
- FY20 guidance has been suspended following the ramp down of San Dimas, Santa Elena and La Encantada, which began April 2020 as a result of the Mexican Ministry of Health's suspension of non-essential business activities from March 31st 2020 – May 30th 2020 (orig. April 30th 2020).
 - The company expects production to return to normalized rates by early June with mines are now deemed essential, and permitted to restart operations on May 18th 2020

First Majestic Financial Performance (US\$MM)	1Q20	4Q19	3Q19	2Q19	1Q19	y-o-y	q-o-q
Revenue	86.1	96.5	97.0	83.7	86.8	(1%)	(11%)
EBIT	14.8	16.3	21.1	(1.8)	3.8	295%	(9%)
Depreciation and Amortization	14.6	17.9	14.5	17.1	17.7	(17%)	(18%)
EBITDA	29.5	34.2	35.6	15.4	21.4	38%	(14%)
<i>EBITDA margin</i>	34%	35%	37%	18%	25%	955 bps	(124 bps)
Working Capital	(15.3)	16.4	(0.7)	(3.9)	2.8	-	-
Income Tax Paid	(0.5)	(0.8)	(0.4)	(3.8)	(1.2)	(59%)	(38%)
Capex	(30.1)	(37.2)	(28.6)	(29.7)	(28.7)	5%	(19%)
Finance Costs Paid	(2.0)	(0.6)	(2.2)	(0.6)	(2.3)	(15%)	224%
Free Cash Flow	(33.7)	28.4	3.2	(26.6)	(5.3)	-	(219%)
Gross Debt	187.3	197.6	185.5	184.0	184.4	2%	(5%)
Convertible Debentures	156.5	156.5	156.5	156.5	156.5	0%	0%
Term Loan	-	-	-	-	-	-	-
Revolving Credit Facility	9.4	19.2	19.1	19.0	18.8	(50%)	(51%)
Lease Liabilities	21.4	21.9	9.9	8.5	9.1	134%	(2%)
Cash and Equivalents	145.2	169.0	118.6	94.5	91.5	59%	(14%)
Net Debt	42.1	28.6	66.9	89.5	92.9	(55%)	47%
Gross Leverage (Gross Debt / LQA EBITDA)	6.4x	1.4x	1.3x	3.0x	2.2x	4.2x	4.9x
Net Leverage (Net Debt / LQA EBITDA)	1.4x	0.2x	0.5x	1.5x	1.1x	0.3x	1.2x
LTM Gross Leverage	1.6x	1.9x	2.2x	2.7x	2.7x	(1.1x)	(0.2x)
LTM Net Leverage	0.4x	0.3x	0.8x	1.3x	1.4x	(1.0x)	0.1x

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