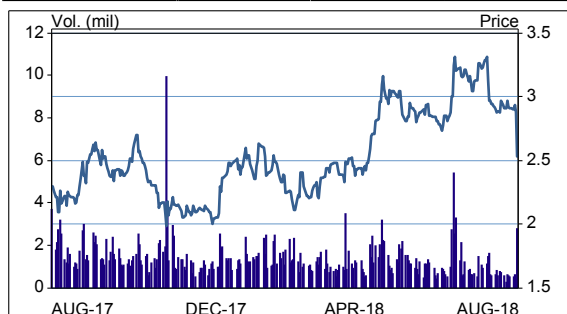


Endeavour Silver Corp. (EXK)
Rating: Buy

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2Q18 Results; Higher YoY Operating Cash Flow
Amid Improvements at El Cubo; Reiterate Buy

Stock Data		08/02/2018	
Price			\$2.53
Exchange			NYSE
Price Target			\$6.00
52-Week High			\$3.35
52-Week Low			\$1.94
Enterprise Value (M)			\$291.4
Market Cap (M)			\$323
Public Market Float (M)			127.5
Shares Outstanding (M)			127.5
3 Month Avg Volume			1,138,550
Short Interest (M)			4.49
Balance Sheet Metrics			
Cash (M)			\$31.1
Total Debt (M)			\$0.0
Total Cash/Share			\$0.24
EPS Diluted			
Full Year - Dec	2017A	2018E	2019E
FY	0.08	(0.02)	0.08
Revenue (\$M)			
Full Year - Dec	2017A	2018E	2019E
FY	150.5	172.2	188.0



Higher YoY operating cash flow despite lower earnings. On August 2, 2018, Endeavour reported 2Q18 revenue of \$38.8M and a net loss of \$5.7M, or \$0.04 per share. While YoY revenue improved from \$32.6M in 2Q17, the firm's net loss increased from \$0.01M, or \$0.00 per share. The 19% YoY increase in revenue was due to increases of 27% and 12% in silver and gold ounces sold, respectively, coupled with a higher average realized gold price. This was partially offset by a lower average realized silver price. The 15% decline in mine operating earnings to \$4.6M was driven by a 26% increase in costs of sales to \$34.1M. This decrease in earnings was mainly due to a \$4.6M increase in depreciation and depletion attributable to Guanaceví and El Cubo amid a \$2.5M write down of inventory. The higher net loss YoY was mostly a function of the above factors, a \$1.6M increase in exploration and G&A costs, and a \$3.2M foreign exchange loss when compared to a \$0.9M gain in 2Q17. We note that a large portion of the increased YoY loss can be attributed to non-cash items, and to a lesser extent, higher exploration expenses related to the firm's exploration programs at various assets. We also highlight that YoY cash flow from operating activities in 2Q18 increased by \$8.6M, and by \$6.9M for 1H18, primarily due to strong results from El Cubo due to higher grades and throughput.

2Q18 features lower cash costs and AISC. Cash costs and AISC per payable silver ounce declined YoY by 9% to \$7.61 and 16% to \$17.28, respectively. Lower YoY cash costs were driven by strong results at El Cubo, including a 46% YoY increase in payable silver ounces produced and a 41% YoY increase in payable gold ounces produced. In short, this contributed to lower cash costs net of by-product credits being spread over a larger production profile at the mine. Improved AISC were supported by lower per ounce cash costs and lower overall sustaining CapEx, partly negated by an uptick in corporate G&A.

Management provided further color on potential near-term IVA tax refunds following our question on the earnings call. The firm had \$24.6M in IVA tax receivables (refunds) as of June 30, 2018, including about \$11.0M related to El Cubo and about \$10.7M related to Guanaceví. We highlight that Endeavour has already received \$4.2M of the above balance thus far in 3Q18 (as per the Management MD&A) and remains hopeful that another \$4.0M could be received from the government this month. In short, we note potential for receipt of additional funds in the near term that could positively impact operating cash flow over the remainder of the year.

We are reiterating our Buy rating and \$6.00 per share PT. Our valuation is based on a DCF of the firm's three operating assets in addition to El Compas. We utilize unchanged 8.0% discount rates at Guanaceví and Bolañitos, and unchanged 10% discount rates for El Cubo and El Compas. These figures are in-line with similar assets in similar jurisdictions carrying equal geopolitical risks. We plan to remain on the sidelines with respect to a DCF for Terronera until updated operating and economic parameters are released with an updated PFS, which we expect should be sometime in August.

Risks. (1) Commodity price risk; (2) financing risk; (3) increase in capital to construct Terronera; and (4) operating and technical risk.



	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Guanacevi														
Tonnes Processed (000's)	350	400	400	400	400	400	400	400	400	400	400	400	400	400
Silver grade (gpt)	250.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0	275.0
Silver Recovery	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%	85.0%
Annual silver production (000's oz)	2,391	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006	3,006
% growth	16.0%	25.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Gold grade (gpt)	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5
Gold recovery	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
Annual gold production (000's oz)	5.2	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6	5.6
% growth	17.0%	7.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Gold:Silver ratio	65	65	65	65	65	65	65	65	65	65	65	65	65	65
Total silver equivalent ounces produced	2,728	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370
% growth	16.1%	23.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production	2,728	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370	3,370
Total Revenues	\$ 54,569	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394	\$ 67,394
Cash cost per oz	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
Mining costs	\$ 24,556	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327	\$ 30,327
Gross profit (in 000's)	\$ 30,013	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067	\$ 37,067
CapEx (in 000's)	\$ (25,600)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)
(Tax)	\$ (1,412)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)	\$ (10,261)
Operating cash flow	\$ 3,001	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806	\$ 21,806
Cash flow discount rate		8.0%												
PV of operating cash flow	\$ 3,001	\$ 20,982	\$ 19,428	\$ 17,989	\$ 16,656	\$ 15,423	\$ 15,423	\$ 14,280	\$ 13,222	\$ 12,243	\$ 11,336	\$ 10,496	\$ 9,719	\$ 8,999
Total current cash flow	\$ 189,198													
Common shares	128,261													
Project NAV per share	\$1.48													
Bolañitos														
Tonnes Processed (000's)	425	425	425	425	425	425	425	425	425	425	425	425	425	425
Silver grade (gpt)	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0	93.0
Silver Recovery	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%
Annual silver production (000's oz)	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055	1,055
% growth	12.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Gold grade (gpt)	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Gold recovery	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%
Annual gold production (000's oz)	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3	24.3
% growth	8.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Gold:Silver ratio	65	65	65	65	65	65	65	65	65	65	65	65	65	65
Total silver equivalent ounces produced	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637
% growth	10.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637	2,637
Total Revenues	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749	\$ 52,749
Cash cost per oz	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25	\$ 8.25
Mining costs	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759	\$ 21,759
Gross profit (in 000's)	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990	\$ 30,990
CapEx (in 000's)	\$ (2,500)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)	\$ (3,000)
(Tax)	\$ (9,117)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)	\$ (8,957)
Operating cash flow	\$ 19,373	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033	\$ 19,033
Cash flow discount rate		8.0%												
PV of operating cash flow	\$ 19,373	\$ 18,315	\$ 16,958	\$ 15,702	\$ 14,539	\$ 13,462	\$ 12,465	\$ 11,541	\$ 10,686	\$ 9,895	\$ 9,162	\$ 8,483	\$ 7,855	\$ 7,273
Total current cash flow	\$ 175,708													
Common shares	128,261													
Project NAV per share	\$1.37													

El Cubo	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)	510	510	510	510	510	510	510	510	510	510	510	510	510	510
Silver grade (gpt)	180.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0	145.0
Silver Recovery	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%	87.0%
Annual silver production (000's oz)	2,568	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068	2,068
% growth	28.6%	-19.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00
Gold grade (gpt)	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Gold recovery	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%	83.0%
Annual gold production (000's oz)	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2	24.2
% growth	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300
Gold:Silver ratio	65	65	65	65	65	65	65	65	65	65	65	65	65	65
Total silver equivalent ounces produced	4,142	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643
% growth	17.4%	-12.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production	4,142	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643	3,643
Total Revenues	\$ 82,847	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862	\$ 72,862
Cash cost per oz	\$ 11.75	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00
Mining costs	\$ 48,673	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717	\$ 43,717
Gross profit (in 000's)	\$ 34,174	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145	\$ 29,145
CapEx (in 000's)	\$ (12,600)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)
(Tax)	\$ (6,904)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)	\$ (7,726)
Operating cash flow	\$ 14,671	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418	\$ 16,418
Cash flow discount rate		10.0%												
PV of operating cash flow	\$ 14,671	\$ 15,654	\$ 14,231	\$ 12,937	\$ 11,761	\$ 10,692	\$ 9,720	\$ 8,836	\$ 8,033	\$ 7,303	\$ 6,639	\$ 6,035	\$ 5,487	\$ 4,988
Total current cash flow	\$	136,988												
Common shares		128,261												
Project NAV per share		\$1.07												
El Compas	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)	55	70	70	70	35									
Silver grade (gpt)	102.0	90.8	83.3	79.0	75.0									
Silver Recovery	73.0%	73.0%	73.0%	73.0%	73.0%									
Annual silver production (000's oz)	132	149	137	130	62									
% growth	0.0%	13.2%	-8.3%	-5.1%	-52.5%									
Silver sales price	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00	\$ 20.00									
Gold grade (gpt)	5.1	5.3	6.8	7.5	7.1									
Gold recovery	83.5%	83.5%	83.5%	83.5%	83.5%									
Annual gold production (000's oz)	7.5	10.0	12.8	14.0	6.6									
% growth		32.1%	28.6%	9.5%	-52.7%									
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300									
Gold:Silver ratio	65	65	65	65	65									
Total silver equivalent ounces produced	621	796	969	1,040	492									
% growth		28.1%	21.7%	7.4%	-52.7%									
Total silver equivalent production	621	796	969	1,040	492									
Total Revenues	\$ 12,423	\$ 15,917	\$ 19,372	\$ 20,808	\$ 9,850									
Cash cost per oz	\$ 9.25	\$ 9.25	\$ 9.25	\$ 9.25	\$ 9.25									
Mining costs	\$ 5,745	\$ 7,362	\$ 8,960	\$ 9,624	\$ 4,556									
Gross profit (in 000's)	\$ 6,677	\$ 8,556	\$ 10,412	\$ 11,184	\$ 5,294									
CapEx (in 000's)	\$ (7,200)	\$ (300)	\$ (300)	\$ (300)	\$ (300)									
(Tax)	\$ -	\$ (2,642)	\$ (3,236)	\$ (3,483)	\$ (1,598)									
Operating cash flow	\$ (523)	\$ 5,614	\$ 6,876	\$ 7,401	\$ 3,396									
Cash flow discount rate		10%												
PV of operating cash flow	\$ (523)	\$ 5,353	\$ 5,960	\$ 5,832	\$ 2,433									
Total current cash flow	\$	19,055												
Common shares		128,261												
Project NAV per share		\$0.15												

	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Consolidated silver equivalent production	10,129	10,446	10,619	10,691	10,143	9,650	9,650	9,650	9,650	9,650	9,650	9,650	9,650	9,650

Current value of cash flow

	Total
Valuation for Guanaceví	\$ 189,198 <i>HCW estimate</i>
Valuation for Bolañitos	\$ 175,708 <i>HCW estimate</i>
Valuation for El Cubo	\$ 136,988 <i>HCW estimate</i>
Valuation for El Compas	\$ 19,055 <i>HCW estimate</i>
Valuation for Terronera	\$ 50,000 <i>HCW estimate</i>
Valuation for other exploration properties	\$ 35,000 <i>HCW estimate</i>
Plus cash & equivalents & FG inventory	\$ 35,277
Less debt	\$ -
Total current value	\$ 641,227
Common shares	128,261
EXK share price	\$ 2.53
EXK NAV	\$ 5.00
NAV Premium for target price	1.2x
Rounded (\$0.25) price target	\$ 6.00 <i>discount to price target</i>

Source: H.C. Wainwright & Co. estimates.

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RETURN ASSESSMENT

Market Outperform (Buy): The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector.

Market Perform (Neutral): The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector.

Market Underperform (Sell): The common stock of the company is expected to underperform a passive index comprised of all the common stock of companies within the same sector.



Investment Banking Services include, but are not limited to, acting as a manager/co-manager in the underwriting or placement of securities, acting as financial advisor, and/or providing corporate finance or capital markets-related services to a company or one of its affiliates or subsidiaries within the past 12 months.

Distribution of Ratings Table as of August 2, 2018				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	279	93.94%	113	40.50%
Neutral	15	5.05%	5	33.33%
Sell	1	0.34%	0	0.00%
Under Review	2	0.67%	0	0.00%
Total	297	100%	118	39.73%

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