

Endeavour Silver Corp. (EXK)
Rating: Buy

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**FY18 Earnings; Strong FY19 Outlook Amid Strength at Guanaceví;
 Revised Commodity Price Deck; Reiterate Buy; PT Higher**

Stock Data		02/25/2019	
Price			\$2.54
Exchange			NYSE
Price Target			\$3.25
52-Week High			\$3.35
52-Week Low			\$1.76
Enterprise Value (M)			\$298
Market Cap (M)			\$332
Public Market Float (M)			127.5
Shares Outstanding (M)			130.6
3 Month Avg Volume			864,964
Short Interest (M)			3.15
Balance Sheet Metrics			
Cash (M)			\$33.4
Total Debt (M)			\$0.0
Total Cash/Share			\$0.26
EPS Diluted			
Full Year - Dec	2018A	2019E	2020E
FY	(0.10)	0.10	0.11
Revenue (\$M)			
Full Year - Dec	2018A	2019E	2020E
FY	150.5	137.0	145.1



On February 25, 2019, Endeavour Silver reported FY18 financial results. The company reported FY18 revenue of \$150.5 million and a net loss of \$12.4 million or \$0.10 per share. This compares to FY17 revenue of \$150.5 million and earnings of \$9.7 million or \$0.08 per share. Revenue remained flat YoY as lower realized commodity prices offset the 12% YoY increase in silver equivalent ounce (SEOs) production.

Earnings declined primarily due to higher depreciation and depletion. We note that depreciation and depletion during 2018 totaled \$38.4 million. This figure came in substantially above depreciation and depletion of \$16.6 million in 2017. Management stated that Guanaceví's 150% increase in proven and probable reserves amid a 200% increase in SEOs should meaningfully lower depletion during 2019. Without the YoY growth in the non-cash charge, the company would have posted net earnings of \$9.4 million, which would have been in-line with 2017.

Near-term catalysts likely to improve transitional performance. In the midst of several operational changes throughout 2018, Endeavour was able to grow silver production by 12% YoY. We note that 2018 gold production was essentially flat when compared with 2017 production. However, both numbers missed guidance by 10% and 5%, respectively. Given prior production issues and continued transitions in 2019, the mid-point of Endeavour's 2019 production guidance of 8.1-9.4 million SEOs represents a 9% YoY decline. We believe this may prove to be conservative given several near-term catalysts. These catalysts include the start of commercial production at El Compas while simultaneously attaining permits to build Terronera, which could place the company in a position to meaningfully exceed 2019 production guidance. We further believe that management should be successful in advancing Guanaceví's turnaround partially by increasing higher-grade Milache ore from 200 tonnes per day (tpd) to 400 tpd by 2Q19.

On the earnings call, management provided color on several questions we asked. Endeavour management mentioned that the firm spent between \$400,000 and \$500,000 to fix the tailings issue at El Compas that was created by excess clay in ore, which the company expects to have a solution for in order to improve recoveries moving forward. The company now has 15,000 to 20,000 tons of stockpiled ore at site, grading between 3.0 and 4.5 grams per tonne of gold. Silver equivalent grades at Guanaceví are expected to be between 240 and 250 gpt silver in 1Q19, with FY19 grades likely averaging closer to 270 or 275 gpt of silver. Lastly, given the robust M&A environment and cash of \$33.4 million with no outstanding debt, management is looking to be an active acquirer of quality assets that produce 100,000 to 150,000 silver ounces with the ability to grow resources with a material mine life.


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Raised commodity price deck amid favorable market conditions. While low gold prices during mid-2018 caused us to reduce our commodity price deck on December 14, 2018, we feel that macroeconomic conditions have strengthened, and in turn, we have increased the gold price to represent our original \$1,300/ounce target. That said, we are maintaining our long-term silver price of \$15/ounce, as the benefits seen in the gold market have yet to be realized in the silver market, which has much more industrial uses. We expect to apply the updated commodity price deck across our coverage universe.

We maintain our Buy rating and increase our PT to \$3.25 per share from \$3.00 per share. We note that our price target increase was due to both, our revised commodity price deck, and bringing our DCF model for all assets forward to 2019. This was somewhat offset by an increased share count. Our valuation remains based on a DCF of the firm's four silver-gold mines in Mexico. We utilize 8.0% discount rates at Guanaceví and Bolañitos amid 10.0% discount rates for El Cubo and El Compas. These figures are in-line with comparable assets in similar jurisdictions carrying the same geopolitical risks. Notably, we expect to include Terronera and Parral in our NAV calculations soon and highlight blue-sky potential from a variety of other assets owned by the firm.

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

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Guanacevi													
Tonnes Processed (000's)	380	380	380	380	380	380	380	380	380	380	380	380	380
Silver grade (gpt)	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	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%	89.6%
Annual silver production (000's oz)	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010	3,010
% growth	46.6%	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	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
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
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%
Annual gold production (000's oz)	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3	5.3
% growth	0.8%	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
Gold:Silver ratio	87	87	87	87	87	87	87	87	87	87	87	87	87
Total silver equivalent ounces produced	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471
% growth	44.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471	3,471
Total Revenues	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064	\$ 52,064
Cash cost per oz	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Mining costs	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767	\$ 27,767
Gross profit (in 000's)	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297	\$ 24,297
CapEx (in 000's)	\$ (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)	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Operating cash flow	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)	\$ (6,175)
Cash flow discount rate													8.0%
PV of operating cash flow	\$ 13,122	\$ 12,150	\$ 11,250	\$ 10,416	\$ 9,645	\$ 9,645	\$ 8,930	\$ 8,269	\$ 7,656	\$ 7,089	\$ 6,564	\$ 6,078	\$ 5,628
Total current cash flow	\$ 116,441												
Common shares	130,781												
Project NAV per share	\$0.89												
Bolañitos													
Tonnes Processed (000's)	340	340	340	340	340	340	340	340	340	340	340	340	340
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
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%
Annual silver production (000's oz)	844	844	844	844	844	844	844	844	844	844	844	844	844
% growth	-15.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
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
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%
Annual gold production (000's oz)	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5	19.5
% growth	-8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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
Gold:Silver ratio	87	87	87	87	87	87	87	87	87	87	87	87	87
Total silver equivalent ounces produced	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532
% growth	6.6%	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	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532	2,532
Total Revenues	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980	\$ 37,980
Cash cost per oz	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75	\$ 7.75
Mining costs	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623	\$ 19,623
Gross profit (in 000's)	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357	\$ 18,357
CapEx (in 000's)	\$ (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)	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Operating cash flow	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)	\$ (4,914)
Cash flow discount rate													8.0%
PV of operating cash flow	\$ 10,443	\$ 9,669	\$ 8,953	\$ 8,290	\$ 7,676	\$ 7,107	\$ 6,581	\$ 6,093	\$ 5,642	\$ 5,224	\$ 4,837	\$ 4,479	\$ 4,147
Total current cash flow	\$ 89,140												
Common shares	130,781												
Project NAV per share	\$0.68												

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

El Cubo	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)	255	255	255	255	255	255	255	255	255	255	255	255	255
Silver grade (gpt)	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0	175.0
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%
Annual silver production (000's oz)	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248	1,248
% growth	-51.0%	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	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00
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
Gold 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%
Annual gold production (000's oz)	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5	12.5
% growth	-53.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
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
Gold:Silver ratio	87	87	87	87	87	87	87	87	87	87	87	87	87
Total silver equivalent ounces produced	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335
% growth	-45.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335	2,335
Total Revenues	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030	\$ 35,030
Cash cost per oz	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50	\$ 11.50
Mining costs	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856	\$ 26,856
Gross profit (in 000's)	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174	\$ 8,174
CapEx (in 000's)	\$ (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)	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%
Operating cash flow	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158	\$ 2,158
Cash flow discount rate				10.0%									
PV of operating cash flow	\$ 2,158	\$ 1,962	\$ 1,784	\$ 1,621	\$ 1,474	\$ 1,340	\$ 1,218	\$ 1,107	\$ 1,007	\$ 915	\$ 832	\$ 756	\$ 688
Total current cash flow	\$ 16,863												
Common shares	130,781												
Project NAV per share	\$0.13												
El Compas	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)	55	75	75	45									
Silver grade (gpt)	90.8	83.3	79.0	75.0									
Silver Recovery	73.0%	73.0%	73.0%	73.0%									
Annual silver production (000's oz)	117	147	139	79									
% growth	0.0%	25.1%	-5.1%	-43.0%									
Silver sales price	\$ 15.00	\$ 15.00	\$ 15.00	\$ 15.00									
Gold grade (gpt)	5.3	6.8	7.5	7.1									
Gold recovery	83.5%	83.5%	83.5%	83.5%									
Annual gold production (000's oz)	7.8	13.7	15.0	8.5									
% growth	0.0%	75.4%	9.5%	-43.2%									
Gold sales price	\$ 1,300	\$ 1,300	\$ 1,300	\$ 1,300									
Gold:Silver ratio	87	87	87	87									
Total silver equivalent ounces produced	795	1,335	1,440	818									
% growth	0.0%	68.0%	7.9%	-43.2%									
Total silver equivalent production	795	1,335	1,440	818									
Total Revenues	\$ 11,921	\$ 20,023	\$ 21,599	\$ 12,268									
Cash cost per oz	\$ 9.25	\$ 9.25	\$ 9.25	\$ 9.25									
Mining costs	\$ 7,351	\$ 12,348	\$ 13,319	\$ 7,565									
Gross profit (in 000's)	\$ 4,570	\$ 7,676	\$ 8,280	\$ 4,703									
CapEx (in 000's)	\$ (300)	\$ (300)	\$ (300)	\$ (300)									
(Tax)	32.0%	32.0%	32.0%	32.0%									
Operating cash flow	\$ 2,903	\$ 5,015	\$ 5,426	\$ 2,994									
Cash flow discount rate				10%									
PV of operating cash flow	\$ 2,903	\$ 4,559	\$ 4,484	\$ 2,249									
Total current cash flow	\$ 14,197												
Common shares	130,781												
Project NAV per share	\$0.11												

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

	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Consolidated silver equivalent production	9,133	9,673	9,778	9,156	8,338	8,338	8,338	8,338	8,338	8,338	8,338	8,338	8,338

(note: silver equivalent production utilizes HCW price deck and therefore may not exactly match Endeavour outlook of results)

Current value of cash flow

	Total	per share	
Valuation for Guanacevi	\$ 116,441	\$ 0.89	HCW estimate
Valuation for Bolañitos	\$ 89,140	\$ 0.68	HCW estimate
Valuation for El Cubo	\$ 16,863	\$ 0.13	HCW estimate
Valuation for El Compas	\$ 14,197	\$ 0.11	HCW estimate
Valuation for Terronera	\$ 50,000	\$ 0.38	HCW estimate
Valuation for other exploration properties	\$ 35,000	\$ 0.27	HCW estimate
Plus cash & equivalents & FG inventory	\$ 37,429	\$ 0.29	
Less debt	\$ -	\$ -	
Total current value	\$ 359,070	\$ 2.75	

Common shares

130,781 as of 12/31/18

EXK share price	\$ 2.22	
EXK NAV	\$ 2.75	
NAV Premium for target price	1.2x	
Rounded (\$0.25) price target	\$ 3.25	31.7% discount to price target

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

Important Disclaimers

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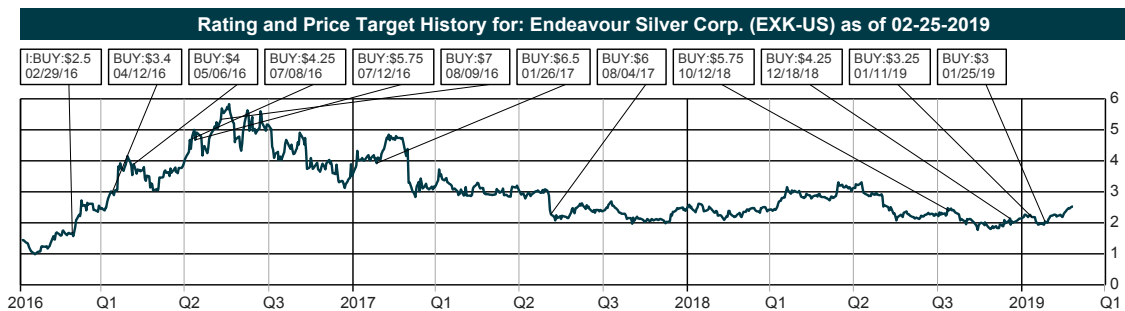
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RETURN ASSESSMENT

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.



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Distribution of Ratings Table as of February 25, 2019					
Ratings	Count	Percent	IB Service/Past 12 Months		
			Count	Percent	
Buy	299	90.88%	114	38.13%	
Neutral	25	7.60%	5	20.00%	
Sell	0	0.00%	0	0.00%	
Under Review	5	1.52%	1	20.00%	
Total	329	100%	120	36.47%	

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