

Endeavour Silver Corp. (EXK)
Rating: Buy

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2023 Production Results Meet Expectations as 4Q23 Production Sees Guanaceví Return to Historical Average; Reiterate Buy

Stock Data		01/09/2024	
Price		\$1.93	
Price Target		\$6.00	
52-Week High		\$4.55	
52-Week Low		\$1.77	
Enterprise Value (M)		\$317.0	
Market Cap (M)		\$399	
Shares Outstanding (M)		206.5	
3 Month Avg Volume		3,855,142	
Short Interest (M)		10.05	
Balance Sheet Metrics			
Cash (M)		\$85.2	
Total Debt (M)		\$9.8	
Total Cash/Share		0.41	
Cash (M): Includes cash & equivalents and finished goods inventory.			
EPS (\$) Diluted			
Full Year - Dec	2021A	2022A	2023E
FY	0.08	0.03	0.01
Revenue (\$M)			
Full Year - Dec	2021A	2022A	2023E
FY	165.3	210.2	203.9



2023 production results meet guidance. On January 9, Endeavour Silver announced its year-end production results. During 2023, the firm produced 8.7M silver equivalent ounces (SEOs) (+5% YoY), consisting of 5.7M ounces (oz) of silver (-5% YoY) and 37,858oz of gold (+1% YoY). The primary driver of this reduction in silver produced was a decline in silver grades at the Guanaceví mine. In addition, the Bolañitos mine encountered lower silver grades that ultimately offset an increase in gold production. Importantly, however, the company was still able to meet its 2023 production guidance of 8.6M – 9.5M SEOs as rates at Guanaceví have returned to their historical averages in 4Q23. Looking ahead, we expect these grades to carry over into the new year.

4Q23 production results. During 4Q23, Endeavour produced 2.2M SEOs (-18% YoY), consisting of 1.4Moz of silver (-23% YoY) and 9,440oz of gold (-7% YoY). Notably, Guanaceví experienced a 7% YoY decrease in throughput amid decreases in silver and gold grades by 18% YoY and 17% YoY, respectively. In turn, we view the overall drop in throughput, coupled with lower-grade ore, as the primary driver for reduced quarterly production. At the Bolañitos mine, throughput grew 4% YoY while overall silver grades fell about 10% YoY. The impact of this was muted as gold grades at the site increased 8% YoY. We stress that the variations in grades at Bolañitos were attributed to common fluctuations in its mineralized body. In turn, silver production at the site decreased 10% YoY to 134,744oz, while gold production at the asset grew by 8% YoY to 5,887oz.

We are reiterating our Buy rating on Endeavour although we slightly lower our PT to \$6.00 from \$7.25. The change in our price target is almost exclusively attributable to a lowered NAV multiple on the firm. We have adjusted our NAV multiple on EXK from 1.7x to 1.4x to more accurately account for recent transaction multiples. Our valuation for the company remains based on a DCF analysis for Guanaceví, Bolañitos, and Terronera. We continue to utilize our 7.0% discount rate for Guanaceví and Bolañitos, while we maintain our 9.0% discount rate for Terronera. In our view, these discount rates remain in line with comparable assets located in similar jurisdictions that carry equal geopolitical risk factors and account for the recent strength in peer transactions. We then add Endeavour's liquid assets of \$85.2M (\$0.41 per share), before subtracting debt of \$9.8M (\$0.05 per share), to calculate our NAV of \$875.0M or \$4.24 per share. Lastly, we apply our aforementioned and revised 1.4x NAV multiple to achieve our rounded price target of \$6.00 per share.

Funding helps lay foundation for near-term growth. On December 18, 2023, Endeavour announced that the firm had entered into a sales agreement for an at-the-market (ATM) offering of up to \$60M. Net proceeds from this offering look to help fund construction and development of EXK's Terronera Mine, advance and assess properties, exploration, and general working capital needs. When coupled with Endeavour's senior secured debt facility of up to \$120M, funding for the current 21-month construction period towards initial production of the site in 4Q24 now looks to be sufficient.

Risks. 1) Commodity price risk; 2) Financing risk; 3) Increase in capital to construct Terronera and 4) Operating and technical risk.

Guanacevi		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)		433	420	420	420	420	420	420	420	420
Silver grade (gpt)		417	275	275	275	275	275	275	275	275
Silver Recovery		88.3%	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%	88.6%
Annual silver production (000's oz)		5,105	3,291	3,291	3,291	3,291	3,291	3,291	3,291	3,291
% growth		-4.4%	-38.4%	-35.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price		\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Gold grade (gpt)		1.19	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Gold recovery		90.8%	91.0%	91.0%	91.0%	91.0%	91.0%	91.0%	91.0%	91.0%
Annual gold production (000's oz)		15.0	6.1	6.1	6.1	6.1	6.1	6.1	6.1	6.1
% growth		-4.9%	-60.9%	-58.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gold sales price		\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
Total silver equivalent ounces produced		6,241	3,758	3,758	3,758	3,758	3,758	3,758	3,758	3,758
% growth		-8.1%	-44.7%	-39.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production		6,241	3,758	3,758	3,758	3,758	3,758	3,758	3,758	3,758
Total Revenues		\$ 156,037	\$ 93,949	\$ 93,949	\$ 93,949	\$ 93,949	\$ 93,949	\$ 93,949	\$ 93,949	\$ 93,949
Cash cost per oz		\$ 16.65	\$ 8.50	\$ 8.50	\$ 8.50	\$ 8.50	\$ 8.50	\$ 8.50	\$ 8.50	\$ 8.50
Mining costs		\$ 101,814	\$ 31,943	\$ 31,943	\$ 31,943	\$ 31,943	\$ 31,943	\$ 31,943	\$ 31,943	\$ 31,943
Gross profit (in 000's)		\$ 54,222	\$ 62,006	\$ 62,006	\$ 62,006	\$ 62,006	\$ 62,006	\$ 62,006	\$ 62,006	\$ 62,006
CapEx (in 000's)		\$ (23,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)
(Tax)		\$ (9,991)	\$ (18,242)	\$ (18,242)	\$ (18,242)	\$ (18,242)	\$ (18,242)	\$ (18,242)	\$ (18,242)	\$ (18,242)
Operating cash flow		\$ 21,231	\$ 38,764	\$ 38,764	\$ 38,764	\$ 38,764	\$ 38,764	\$ 38,764	\$ 38,764	\$ 38,764
Cash flow discount rate		7.0%								
PV of operating cash flow		\$ 21,231	\$ 38,764	\$ 36,228	\$ 33,858	\$ 31,643	\$ 29,573	\$ 27,638	\$ 25,830	\$ 24,140
Total current cash flow/ Project NAV		\$ 268,907								
Common shares		206,530								
Project NAV per share		\$1.30								
Bolañitos		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)		441	400	400	400	400	400	400	400	400
Silver grade (gpt)		47	44	44	44	44	44	44	44	44
Silver Recovery		85.3%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%	81.0%
Annual silver production (000's oz)		567	461	461	461	461	461	461	461	461
% growth		-8.9%	-26.0%	-18.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Silver sales price		\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Gold grade (gpt)		1.7	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
Gold recovery		86%	86%	86%	86%	86%	86%	86%	86%	86%
Annual gold production (000's oz)		22.9	25.2	25.2	25.2	25.2	25.2	25.2	25.2	25.2
% growth		5.0%	15.3%	9.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Gold sales price		\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
Total silver equivalent ounces produced		2,308	2,373	2,373	2,373	2,373	2,373	2,373	2,373	2,373
% growth		-12.3%	-9.8%	2.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Total silver equivalent production		2,308	2,373	2,373	2,373	2,373	2,373	2,373	2,373	2,373
Total Revenues		\$ 57,710	\$ 59,326	\$ 59,326	\$ 59,326	\$ 59,326	\$ 59,326	\$ 59,326	\$ 59,326	\$ 59,326
Cash cost per oz		\$ 17.47	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00	\$ 8.00
Mining costs		\$ 40,345	\$ 18,984	\$ 11,865	\$ 11,865	\$ 11,865	\$ 11,865	\$ 11,865	\$ 11,865	\$ 11,865
Gross profit (in 000's)		\$ 17,365	\$ 40,342	\$ 47,461	\$ 47,461	\$ 47,461	\$ 47,461	\$ 47,461	\$ 47,461	\$ 47,461
CapEx (in 000's)		\$ (12,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)	\$ (5,000)
(Tax)		\$ (1,717)	\$ (11,309)	\$ (13,588)	\$ (13,588)	\$ (13,588)	\$ (13,588)	\$ (13,588)	\$ (13,588)	\$ (13,588)
Operating cash flow		\$ 3,648	\$ 24,032	\$ 28,873	\$ 28,873	\$ 28,873	\$ 28,873	\$ 28,873	\$ 28,873	\$ 28,873
Cash flow discount rate		7.0%								
PV of operating cash flow		\$ 3,648	\$ 22,460	\$ 25,219	\$ 23,569	\$ 22,027	\$ 20,586	\$ 19,240	\$ 17,981	\$ 16,805
Total current cash flow/Project NAV		\$ 171,536								
Common shares		206,530								
Project NAV per share		\$0.83								

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

Terronera		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Tonnes Processed (000's)			45	580	680	680	680	680	680	680
		Note: Production extends to 2035 but not shown .								
Silver grade (gpt)			226	237	267	280	221	173	199	212
Silver Recovery			87%	87%	87%	87%	87%	87%	87%	87%
Annual silver production (000's oz)			284	3,845	5,078	5,326	4,204	3,291	3,785	4,032
Silver sales price	\$	25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00	\$ 25.00
Gold grade (gpt)			1.22	1.90	1.87	1.85	2.57	2.74	2.02	1.68
Gold recovery			75%	75%	75%	75%	75%	75%	75%	75%
Annual gold production (000's oz)			-	1.3	26.6	30.7	30.3	42.1	44.9	33.1
Gold sales price	\$	1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900	\$ 1,900
Gold:Silver ratio			76	76	76	76	76	76	76	
Total silver equivalent ounces produced		-	385	5,864	7,409	7,631	7,406	6,705	6,302	6,126
Total silver equivalent production		-	385	5,864	7,409	7,631	7,406	6,705	6,302	6,126
Total Revenues			\$ 9,627	\$ 146,611	\$ 185,219	\$ 190,778	\$ 185,153	\$ 167,625	\$ 157,558	\$ 153,147
Cost per tonne	\$	-	\$ 90.00	\$ 82.00	\$ 82.00	\$ 82.00	\$ 82.00	\$ 82.00	\$ 82.00	\$ 82.00
Mining costs	\$	-	\$ 4,050	\$ 47,560	\$ 55,760	\$ 55,760	\$ 55,760	\$ 55,760	\$ 55,760	\$ 55,760
Gross profit (in 000's)	\$	-	\$ 5,577	\$ 99,051	\$ 129,459	\$ 135,018	\$ 129,393	\$ 111,865	\$ 101,798	\$ 97,387
CapEx (in 000's)	\$	(100,000)	\$ (70,000)	\$ (20,000)	\$ (8,000)	\$ (8,000)	\$ (8,000)	\$ (8,000)	\$ (8,000)	\$ (8,000)
(Tax)	32.0%			\$ (25,296)	\$ (38,867)	\$ (40,646)	\$ (38,846)	\$ (33,237)	\$ (30,015)	\$ (28,604)
Operating cash flow		\$ (100,000)	\$ (64,423)	\$ 53,754	\$ 82,592	\$ 86,372	\$ 82,548	\$ 70,628	\$ 63,782	\$ 60,783
Cash flow discount rate	9.0%									
PV of operating cash flow		\$ (100,000)	\$ (59,104)	\$ 45,244	\$ 63,776	\$ 61,188	\$ 53,650	\$ 42,113	\$ 34,891	\$ 30,505
Total current cash flow	\$	238,459								
Common shares		206,530								
Project NAV per share		\$1.15								
Source: H.C. Wainwright & Co. estimates.										
		2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Consolidated silver equivalent production		8,550	6,516	11,995	13,540	13,762	13,537	12,836	12,433	12,257
(note: silver equivalent production utilizes HCW price deck and therefore may not exactly match Endeavour outlook or results)										
Current value of cash flow	Total		per share							
Valuation for Guanacevi	\$ 268,907	\$	1.30	HCW estimate						
Valuation for Bolañitos	\$ 171,536	\$	0.83	HCW estimate						
Valuation for Terronera	\$ 238,459	\$	1.15	HCW estimate						
Valuation for Bruner at cost	\$ 10,000	\$	0.05	HCW estimate						
Valuation for Pitarrilla	\$ 70,000	\$	0.34	HCW estimate						
Valuation for other exploration properties	\$ 35,000	\$	0.17	HCW estimate						
Market value for shares of Guanajuato Silver (GSVRF; not rated)	\$ 5,736	\$	0.03	Market value as of 1/9/2023						
Plus cash & equivalents and finished goods inventory	\$ 85,158	\$	0.41	As of September 30, 2023. Pro forma for shares issued subsequent to 3Q23						
Less debt	\$ 9,839	\$	0.05	As of September 30, 2023.						
Total current value	\$ 874,958	\$	4.24							
Common shares	206,530	As of 11/3/2023								
EXK share price	\$ 1.90	As of 1/9/2023								
EXK NAV	\$ 4.24									
NAV Premium for target price	1.4x									
Rounded (\$0.25) price target	\$ 6.00	68.3% discount to price target								
Source: H.C. Wainwright & Co. estimates.										

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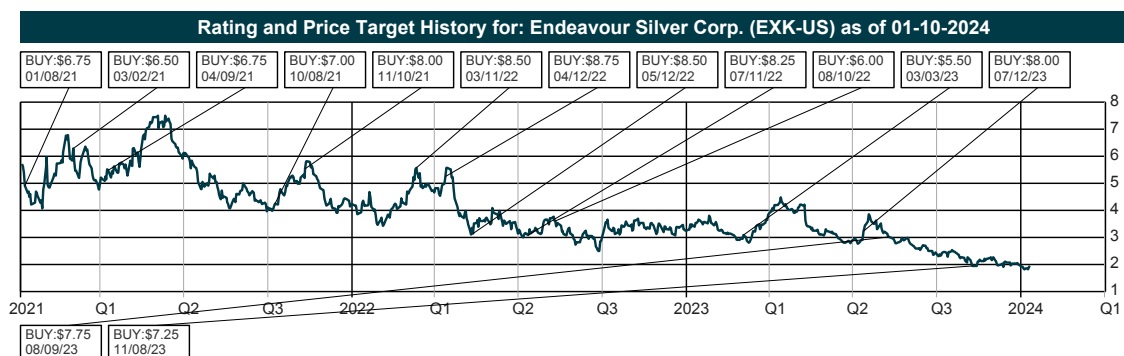
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Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	558	88.01%	138	24.73%
Neutral	64	10.09%	9	14.06%
Sell	0	0.00%	0	0.00%
Under Review	12	1.89%	5	41.67%

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