

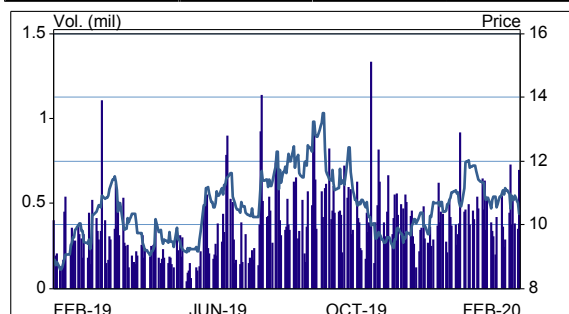
MAG Silver Corp (MAG)
Rating: Buy

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Juanicipio Mine Development Progresses Amid Near-Term Production; Opportunities for Resource Growth; Reiterate Buy

Stock Data		02/04/2020	
Price		\$10.34	
Exchange		NYSE American	
Price Target		\$18.50	
52-Week High		\$14.00	
52-Week Low		\$8.54	
Enterprise Value (M)		\$800	
Market Cap (M)		\$895	
Shares Outstanding (M)		86.5	
3 Month Avg Volume		411,998	
Short Interest (M)		2.49	
Balance Sheet Metrics			
Cash (M)		\$94.6	
Total Debt (M)		\$0.0	
Total Cash/Share		\$1.09	
General: All figures in US\$ unless otherwise noted.			
EPS Diluted			
Full Year - Dec	2018A	2019E	2020E
FY	(0.07)	(0.06)	0.77
Revenue (\$M)			
Full Year - Dec	2018A	2019E	2020E
FY	0.0	0.0	270.0



Juanicipio development remains on schedule. We note that according to an early-December update from Fresnillo PLC (FRES.L; not rated), which owns 56% of the Juanicipio project, mine development is progressing well with only 22 kilometers remaining. Fresnillo currently expects the first production stope to be available in October 2020. Further, the company has placed orders for 70% of the critical process plant equipment and has already built two flotation cells at site. Fresnillo also plans to complete the flotation plant in December 2020 since the original tailings dam construction has already been permitted. The company has requisitioned 100% of the necessary mobile mining equipment as horizontal and vertical development has been 26% and 23% completed, respectively. In short, we believe that development of the Juanicipio project continues to advance on schedule while the firm is still focused on its exploration efforts.

Near-term production potential. Fresnillo is currently forecasting FY21 production of 3.6M ounces (oz) of silver upon completion of Juanicipio's mine construction. Although this figure is slightly below the feasibility study estimate of 4.3M oz, management nonetheless estimates FY22 production at 6.5M oz and above the feasibility study estimate of 6.2M oz. We continue to believe that Juanicipio is likely to commence production in FY20 and currently expect commercial production to be achieved in FY21.

Additional resource opportunity. The mineable material utilized in the firm's FY17 Preliminary Economic Assessment does not include any resources associated with the Juanicipio Vein as this ore remains categorized in MAG's Inferred ounces. The Juanicipio Vein currently contains 20M oz of silver in the Inferred resource category, in addition to 94,000 oz of gold, 25M pounds (lbs) of lead, and 60M lbs of zinc. We continue to expect these resources to get rolled into later-stage production following additional analysis of their potential extraction strategy. We further note that the FY17 PEA does not include a copper circuit given the lack of metallurgical testing for the commodity. The Juanicipio Vein resource, while relatively modest when compared to ounces that are currently mineable, reiterates the expansion potential for the production profile of the Juanicipio project.

Overall positive opinion remains unchanged. We continue to view MAG shares as undervalued and highlight the project's long-term mine-life in addition to substantial exploration potential. We further note the high grades at site and favorable cash costs that are likely to remain low given Fresnillo's expertise in the area. Finally, we continue to believe that MAG remains an attractive M&A target, especially if silver prices remain strong.

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We maintain our Buy rating and our PT of \$18.50 per share. Our valuation remains based on a DCF of anticipated operations for Juanicipio, utilizing an unchanged 7.0% discount rate, which accounts for the production potential at site. However, we do not believe the market is appreciating the near-term producing nature of the asset. We have moved our model forward to FY20 and lowered our partial-year FY20 throughput forecast at Juanicipio from 600,000 tonnes to 200,000 tonnes to account for minor delays. We believe this change better reflects our belief that the asset could include some production in late-FY20 but note this could be aggressive should mine construction delay production until FY21. Our price target remains unchanged.

Risks. (1) Commodity price risk; (2) increase in capital required to construct Juanicipio; (3) operating and technical risks; (4) political risk; and (5) JV-related risks.

MAG Silver Corp		2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E
<u>Juancipio</u>															
Tonnes Milled		200,000	1,300,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000	1,440,000
Silver Grade (g/t)		625	660	680	740	550	550	320	230	230	230	360	305	310	310
Recovery Rate		90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
Annual Silver Production ('000s of oz)		3,499	24,018	27,411	29,829	22,171	22,171	12,899	9,271	9,271	9,271	14,512	12,295	12,496	12,496
Growth			586%	14%	9%	-26%	0%	-42%	-28%	0%	0%	57%	-15%	2%	0%
Silver Sales Price		\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50	\$ 17.50
Gold Grade (g/t)		1.4	1.5	1.7	1.5	1.3	1.3	1.6	1.1	1.2	1.2	1.6	1.3	1.4	1.4
Recovery Rate		80.4%	80.6%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%	80.8%
Annual Gold Production ('000s of oz)		7	48	63	54	47	47	59	41	42	43	58	46	49	49
Growth			565%	31%	-13%	-13%	-1%	26%	-31%	4%	3%	33%	-21%	7%	0%
Gold Sales Price		\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500
Silver:Gold Ratio		85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7	85.7
Silver Equivalent ('000s of oz)		617	4,106	5,366	4,653	4,033	4,002	5,056	3,474	3,629	3,722	4,963	3,939	4,219	4,219
Lead Grade		1.6%	1.6%	1.6%	1.5%	1.1%	1.2%	1.5%	1.7%	1.9%	1.4%	1.4%	2.0%	1.6%	1.6%
Recovery Rate		93.4%	93.6%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%	93.8%
Annual Lead Production ('000s of pounds)		6,507	43,458	48,241	44,667	33,054	36,329	44,667	50,028	55,090	42,285	42,583	58,663	48,836	48,836
Growth			568%	11%	-7%	-26%	10%	23%	12%	10%	-23%	1%	38%	-17%	0%
Lead Sales Price per pound		\$ 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	\$ 0.85
Value of Lead (in '000s of \$)		5,531	36,939	41,005	37,967	28,096	30,880	37,967	42,523	46,826	35,942	36,195	49,864	41,511	41,511
Silver Equivalent ('000s of oz)		316	2,111	2,343	2,170	1,605	1,765	2,170	2,430	2,676	2,054	2,068	2,849	2,372	2,372
Zinc Grade		3.2%	3.1%	3.1%	3.2%	2.4%	2.3%	2.5%	2.9%	3.0%	2.5%	3.0%	3.4%	3.2%	3.2%
Recovery Rate		87.4%	87.6%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%
Annual Zinc Production ('000s of pounds)		12,447	78,331	86,965	89,474	65,781	63,552	69,684	79,718	84,735	68,290	84,457	93,376	87,801	87,801
Growth			529%	11%	3%	-26%	-3%	10%	14%	6%	-19%	24%	11%	-6%	0%
Zinc Sales Price per pound		\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Value of Zinc (in '000s)		12,447	78,331	86,965	89,474	65,781	63,552	69,684	79,718	84,735	68,290	84,457	93,376	87,801	87,801
Silver Equivalent ('000s of oz)		711	4,476	4,969	5,113	3,759	3,632	3,982	4,555	4,842	3,902	4,826	5,336	5,017	5,017
Silver & Gold		4,116	28,124	32,777	34,482	26,203	26,172	17,955	12,746	12,901	12,994	19,475	16,234	16,715	16,715
Base Metal Credits (in '000s)		17,978	115,271	127,970	127,441	93,877	94,432	107,651	122,242	131,562	104,232	120,652	143,240	129,312	129,312
Total Silver Equivalents & Base Metals		5,144	34,711	40,090	41,765	31,568	31,568	24,107	19,731	20,418	18,950	26,369	24,419	24,104	24,104
Total Cash Cost per ounce of silver equivalent		\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86	\$ 4.86
Revenue from Silver ('000s)		\$ 61,235	\$ 420,317	\$ 479,690	\$ 522,016	\$ 387,985	\$ 387,985	\$ 225,737	\$ 162,248	\$ 162,248	\$ 162,248	\$ 253,954	\$ 215,155	\$ 218,682	\$ 218,682
% of total revenue		68.0%	69.2%	68.4%	71.4%	70.2%	70.2%	53.5%	47.0%	45.4%	48.9%	55.0%	50.3%	51.8%	51.8%
Revenue from Gold ('000s)		\$ 10,803	\$ 71,861	\$ 93,912	\$ 81,426	\$ 70,570	\$ 70,027	\$ 88,483	\$ 60,798	\$ 63,513	\$ 65,141	\$ 86,855	\$ 68,941	\$ 73,827	\$ 73,827
% of total revenue		12.0%	11.8%	13.4%	11.1%	12.8%	12.7%	21.0%	17.6%	17.8%	19.6%	18.8%	16.1%	17.5%	17.5%
Revenue from Lead ('000s)		\$ 5,531	\$ 36,939	\$ 41,005	\$ 37,967	\$ 28,096	\$ 30,880	\$ 37,967	\$ 42,523	\$ 46,826	\$ 35,942	\$ 36,195	\$ 49,864	\$ 41,511	\$ 41,511
% of total revenue		6.1%	6.1%	5.8%	5.2%	5.1%	5.6%	9.0%	12.3%	13.1%	10.8%	7.8%	11.7%	9.8%	9.8%
Revenue from Zinc ('000s)		\$ 12,447	\$ 78,331	\$ 86,965	\$ 89,474	\$ 65,781	\$ 63,552	\$ 69,684	\$ 79,718	\$ 84,735	\$ 68,290	\$ 84,457	\$ 93,376	\$ 87,801	\$ 87,801
% of total revenue		13.8%	12.9%	12.4%	12.2%	11.9%	11.5%	16.5%	23.1%	23.7%	20.6%	18.3%	21.9%	20.8%	20.8%
Total Revenue		\$ 90,016	\$ 607,449	\$ 701,572	\$ 730,883	\$ 552,432	\$ 552,443	\$ 421,871	\$ 345,288	\$ 357,323	\$ 331,622	\$ 461,461	\$ 427,336	\$ 421,821	\$ 421,821
Gross Profit (in '000s of \$)		65,017	438,752	506,735	527,907	399,013	399,022	304,711	249,397	258,089	239,526	333,306	308,659	304,676	304,676
CapEx		(20,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)	(15,000)
Tax @ 30.0% plus 7.5% EBITDA & 0.5% revenue		-	-	-	(122,854)	(114,974)	(114,976)	(86,737)	(70,175)	(72,778)	(67,219)	(95,299)	(87,919)	(86,727)	(86,727)
Net effective operating cash flow		45,017	423,752	491,735	390,053	269,040	269,046	202,974	164,222	170,311	157,306	223,007	205,739	202,949	202,949
Cash Flow Discount Rate		7.0%													
Present Value		45,017	396,030	429,501	318,399	205,249	191,826	135,250	102,269	99,123	85,564	113,365	97,745	90,112	84,217
% owned by MAG		44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%
Value to MAG Shareholders		19,808	174,253	188,980	140,096	90,310	84,403	59,510	44,998	43,614	37,648	49,881	43,008	39,649	37,055
Total Current Value		\$ 1,078,739	Note: Fresnillo owns 56%, MAG the remaining 44%												
Fully Diluted Shares ('000s)		88,570													
Juancipio NAV per share		\$ 12.18													
Multiple		1.3													
Juancipio current value		\$ 1,402,361													
Juancipio Value per share		\$ 15.83													
Cinco de Mayo value		\$ 125,000													
Multiple		1.0													
Cinco de Mayo fair value		\$ 125,000													
Plus Cash & Equivalents		\$ 94,599	\$ 1.07	As of 9/30/19											
Plus Finished Goods		\$ -													
Plus Exploratory Assets		\$ 25,000	\$ 0.28	exploratory assets per share											
Less Debt		\$ -													
Total Current Value ('000s of US\$)		\$ 1,646,960													
Basic shares		86,516	As of 9/30/19												
Options, DSU's, RSU's, and PSU's		2,054	As of 9/30/19												
Fully Diluted Shares ('000s)		88,570													
NAV per share		\$ 18.60													
NAV multiple		1.00													
Price target		\$ 18.60													
Rounded (\$0.50) price target		\$ 18.50													
Current MAG share price		\$ 10.34	44.1% discount to price target as of 2/4/20												

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

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Distribution of Ratings Table as of February 4, 2020				
Ratings	Count	Percent	IB Service/Past 12 Months	
			Count	Percent
Buy	383	91.85%	132	34.46%
Neutral	32	7.67%	7	21.88%
Sell	0	0.00%	0	0.00%
Under Review	2	0.48%	2	100.00%

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