Metals and Mining

August 16, 2022

MAG Silver Corp (MAG) Rating: Buy

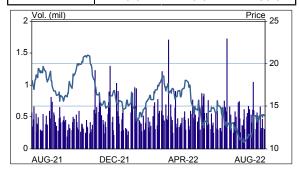
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2Q22 Financial Results; Ongoing Drilling Across Asset Base; Update on Deer Park and Larder Projects; Reiterate Buy

Stock Data	08/15/2022
Price	\$13.88
Exchange	NYSE American
Price Target	\$16.50
52-Week High	\$21.73
52-Week Low	\$10.32
Enterprise Value (M)	\$1,324
Market Cap (M)	\$1,369
Shares Outstanding (M)	98.7
3 Month Avg Volume	491,260
Short Interest (M)	2.55
Balance Sheet Metrics	
Cash (M)	\$44.7
Total Debt (M)	\$0.0
Total Cash/Share	\$0.45

General: All figures in US\$ unless otherwise noted.							
EPS (\$) Diluted							
Full Year - Dec	2020A	2021A	2022E				
FY	(80.0)	0.06	0.67				
Revenue (\$M)							
Full Year - Dec	2020A	2021A	2022E				
FY	0.0	0.0	189.6				



On August 15, MAG Silver announced its 2Q22 financial results. During the quarter, the Juanicipio joint venture (JV) recorded \$55.2M in revenue and net income of \$27.4M. Notably, this compares favorably to revenue of \$11.3M and net income of \$11.0M on a 100% basis during 2Q21. In turn, MAG recognized \$12.3M related to its 44% share of equity income in Juanicipio during the most recent quarter, compared with \$4.8M in 2Q21. The company ultimately reported net income of \$7.6M, or \$0.08 per share, during 2Q22, which compares quite favorably to net income of \$3.3M, or \$0.03 per share, during 2Q21. Notably, we do not put much emphasis on recent financials as Juanicipio has not yet completed its final electrical tie-in, though we stress that this is expected to be completed in the next few weeks.

2022 exploration updates across asset base. Through 1H22, the JV has spent \$3.6M on a 100% basis with five drill rigs currently active at surface. Importantly, these rigs are presently running in tandem with ongoing underground definition and geotechnical drilling. For now, one rig is testing the new Cesantoni target in the northwest part of the Juanicipio concession. In contrast, a five-hole, 5,000-meter drill program remains ongoing at the company's Deer Trail project as three directional holes have now been completed with assay results pending. Lastly, a drilling program has been initiated to drill below and lateral to the already identified mineralization at site at the recently acquired Larder Project in Northern Ontario.

We reiterate our Buy rating on shares of MAG Silver and our PT of \$16.50. Our overall valuation for Juanicipio remains based on a DCF of anticipated operations while utilizing an unchanged 7.0% discount rate. We note that this figure is slightly lower than the discount rates applied to most other Mexican assets throughout our coverage universe. In our view, the lower discount rate nonetheless accurately accounts for MAG's high-grade orebody, profitable JV agreement, and extensive production potential.

Near-term catalysts. Looking ahead, we reiterate that commissioning of the new electrical system at the Juanicipio processing plant is expected to occur in the coming weeks. We also highlight that management reiterates Juanicipio's targeted ramp-up to 85 - 90% of nameplate capacity by the end of 2022, as well as the delivery of concentrates from its Juanicipio facility in 2H22, as over 100,000 tonnes of material remains stockpiled at site.

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

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MAG Silver Corp																
			2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	
<u>Juanicipio</u>																
Tonnes Milled			984,553	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	1,008,000	
Silver Grade (g/t)			631	740	550	550	320	230	230	230	360	305	310	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%	
Annual Silver production ('000s of oz)			17,650	29,829	22,171	22,171	12,899	9,271	9,271	9,271	14,512	12,295	12,496	12,496	8,747	
Growth			452%	69%	-26%	0%	-42%	-28%	0%	0%	57%	-15%	2%	0%	-30%	
Silver Sales Price			\$ 19.00	\$ 19.00 \$	19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	\$ 19.00	
Gold Grade (g/t)			1.7	1.5	1.3	1.3	1.6	1.1	1.2	1.2	1.6	1.3	1.4	1.4	1.4	
Recovery Rate			80.8%	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)			43	54	47	47	59	41	42	43	58	46	49	49	34	
Growth			621%	27%	-13%	-1%	26%	-31%	4%	3%	33%	-21%	7%	0%	-30%	
Gold Sales Price			\$ 1,750	\$ 1,750 \$	1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	\$ 1,750	
Silver:Gold Ratio			92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	92.1	
Silver Equivalent ('000s of oz)			3,943	5,000	4,333	4,300	5,433	3,733	3,900	4,000	5,333	4,233	4,533	4,533	3,173	
Lead Grade			1.6%	1.5%	1.1%	1.2%	1.5%	1.7%	1.9%	1.4%	1.4%	2.0%	1.6%	1.6%	1.6%	
Recovery Rate			93.8%	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)			30,459	44,667	33,054	36,329	44,667	50,028	55,090	42,285	42,583	58,663	48,836	48,836	34,185	
Growth			262%	47%	-26%	10%	23%	12%	10%	-23%	1%	38%	-17%	0%	-30%	
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	
Value of Lead (in '000s of \$)			25,891	37,967	28,096	30,880	37,967	42,523	46,826	35,942	36,195	49,864	41,511	41,511	29,058	
Silver Equivalent ('000s of oz)			1,363	1,998	1,479	1,625	1,998	2,238	2,465	1,892	1,905	2,624	2,185	2,185	1,529	
Zinc Grade			3.1%	3.2%	2.4%	2.3%	2.5%	2.9%	3.0%	2.5%	3.0%	3.4%	3.2%	3.2%	3.2%	
Recovery Rate			87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	87.8%	
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Annual Zinc Production ('000s of pounds)			53,866	89,474	65,781	63,552	69,684	79,718	84,735	68,290	84,457	93,376	87,801	87,801	61,461	
Growth			255%	66%	-26%	-3%	10%	14%	6%	-19%	24%	11%	-6%	0%	-30%	
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	
Value of Zinc (in '000s)			53,866	89,474	65,781	63,552	69,684	79,718	84,735	68,290	84,457	93,376	87,801	87,801	61,461	
Silver Equivalent ('000s of oz)			2,835	4,709	3,462	3,345	3,668	4,196	4,460	3,594	4,445	4,915	4,621	4,621	3,235	
Silver & Gold			21,593	34,829	26,504	26,470	18,332	13,005	13,171	13,271	19,845	16,528	17,029	17,029	11,921	
Base Metal Credits (in '000s)			79,756	127,441	93,877	94,432	107,651	122,242	131,562	104,232	120,652	143,240	129,312	129,312	90,519	
Total Silver Equivalents & Base Metals			25,791	41,537	31,445	31,441	23,998	19,438	20.096	18,757	26.195	24.067	23.835	23,835	16,685	
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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	
Revenue from Silver ('000s)			\$ 335,353	\$ 566,760 \$	421,241	\$ 421,241	\$ 245,085	\$ 176,155	\$ 176,155	\$ 176,155	\$ 275,721	\$ 233,597	\$ 237,427	\$ 237,427	\$ 166,199	
% of total revenue			68.4%	71.8%	70.5%	70.5%	53.8%	47.7%	46.1%	49.4%	55.4%	51.1%	52.4%	52.4%	52.4%	
Revenue from Gold ('000s)			\$ 74,911	\$ 94,997 \$	82,331	\$ 81,698	\$ 103,231	\$ 70,931	\$ 74,098	\$ 75,998	\$ 101,331	\$ 80,431	\$ 86,131	\$ 86,131	\$ 60,292	
% of total revenue			15.3%	12.0%	13.8%	13.7%	22.6%	19.2%	19.4%	21.3%	20.4%	17.6%	19.0%	19.0%	19.0%	
Revenue from Lead ('000s)			\$ 25,891				\$ 37,967			\$ 35,942	\$ 36,195			\$ 41,511	\$ 29,058	
% of total revenue			5.3%	4.8%	4.7%	5.2%	8.3%	11.5%	12.3%	10.1%	7.3%	10.9%	9.2%	9.2%	9.2%	
Revenue from Zinc ('000s)			\$ 53,866	\$ 89,474 \$	65,781	\$ 63,552	\$ 69,684	\$ 79,718	\$ 84,735	\$ 68,290	\$ 84,457	\$ 93,376	\$ 87,801	\$ 87,801	\$ 61,461	
% of total revenue			11.0%	11.3%	11.0%	10.6%	15.3%	21.6%	22.2%	19.2%	17.0%	20.4%	19.4%	19.4%	19.4%	
Total Revenue			\$ 490,020	\$ 789,199 \$	597,449	\$ 597,370	\$ 455,967	\$ 369,328	\$ 381,815	\$ 356,386	\$ 497,704	\$ 457,268	\$ 452,870	\$ 452,870	\$ 317,009	
Gross Profit (in '000s of \$)			364,678	587,330	444,628	444,569	339,335	274,858	284,151	265,226	370,397	340,304	337,031	337,031	235,921	
CapEx			(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	30.0	9%	-	(136,992)	(128,541)	(128,523)	(97,035)	(77,743)	(80,523)	(74,861)	(106,329)	(97,325)	(96,346)	(96,346)	(66,092)	
Net effective operating cash flow			349,678	435,338	301,087	301,046	227,300	182,115	188,628	175,365	249,067	227,979	225,685	225,685	154,829	
Cash Flow Discount Rate	7.0	196				,	,			.,	-,	,	.,	.,		
Present Value	,,,		349,678	406.858	262.981	245.743	173.406	129.846	125.690	109.209	144.959	124.005	114.727	107,221	68.746	
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% owned by MAG			44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	44%	
Value to MAG Shareholders			153,858	179,017	115,712	108,127	76,299	57,132	55,304	48,052	63,782	54,562	50,480	47,177	30,248	
Total Current Value	\$ 1,039,75	1	Note: Fresnillo owns 56%,	MAG the remain	ing 44%											
Fully Diluted Shares ('000s)	100,81	1														
Juanicipio NAV per share	\$ 10.3	1														
Multiple	1.	4														
Juanicipio current value	\$ 1,455,65	1														
Juanicipio Value per share	\$ 14.4															
Cinco do Maye :!	\$ 125,00	0														
Cinco de Mayo value																
Multiple		.0														
Cinco de Mayo fair value	\$ 125,00	0														
Plus Cash & Equivalents	\$ 44,65	5 \$ 0.44 per share	As of 6/30/22													
Plus Finished Goods	\$ -															
Plus Exploratory Assets	\$ 29,20	7 \$ 0.29 per share	as of 6/30/22													
Plus ownership in Reyna Silver Corp. (RSLV.V)			based on 14.6M common	shares at CSO.3.9 a	s of 8/15/22	0.78	USD/CAD exch	nange rate as o	f 8/15/22							
Less Debt	\$ -	, per snare			, ., -,	0.70	. , cata	J	,							
	\$ 1,658,26	•														
Total Current Value ('000s of US\$)																
Basic shares		2 As of 8/12/22														
Options, DSU's, RSU's, and PSU's		9 As of 8/12/22														
Fully Diluted Shares ('000s)	100,81	1 As of 8/12/22														
NAV per share	\$ 16.4	5														
Rounded (\$0.50) price target	\$ 16.5	0														
	\$ 13.8		to price target as of 8/15/2	22												
Current MAG share price																

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

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Distribution of Ratings Table as of August 15, 2022									
		IB Service/Past 1							
Ratings	Count	Percent	Count	Percent					
Buy	564	87.58%	131	23.23%					
Neutral	62	9.63%	12	19.35%					
Sell	2	0.31%	0	0.00%					
Under Review	16	2.48%	1	6.25%					

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