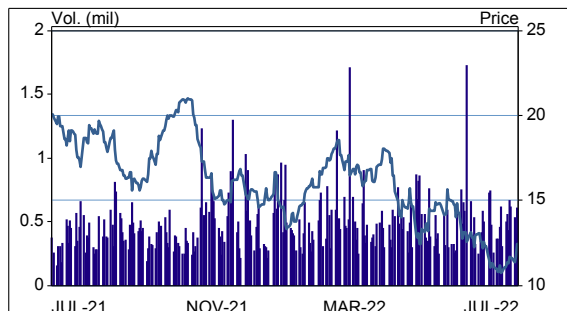


MAG Silver Corp (MAG)
Rating: Buy

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2Q22 Production; Usage of Saucito and Fresnillo Plants; Mill Commissioning; Price Deck Revision; Reit. Buy; PT Lower

| Stock Data | | 07/27/2022 | |
|--|--------|---------------|-------|
| Price | | \$12.45 | |
| Exchange | | NYSE American | |
| Price Target | | \$16.50 | |
| 52-Week High | | \$21.73 | |
| 52-Week Low | | \$10.32 | |
| Enterprise Value (M) | | \$1,167 | |
| Market Cap (M) | | \$1,219 | |
| Shares Outstanding (M) | | 97.9 | |
| 3 Month Avg Volume | | 506,795 | |
| Short Interest (M) | | 2.23 | |
| Balance Sheet Metrics | | | |
| Cash (M) | | \$52.2 | |
| Total Debt (M) | | \$0.0 | |
| Total Cash/Share | | \$0.53 | |
| General: All figures in US\$ unless otherwise noted. | | | |
| EPS (\$) Diluted | | | |
| Full Year - Dec | 2020A | 2021A | 2022E |
| FY | (0.08) | 0.06 | 0.70 |
| Revenue (\$M) | | | |
| Full Year - Dec | 2020A | 2021A | 2022E |
| FY | 0.0 | 0.0 | 189.6 |



2Q22 production from the Juanicipio project. On July 27, MAG Silver announced its recent production results from underground development and stope material. On a 100% basis, 154,069 tonnes (t) (+6% QoQ) of mineralized material from both underground development and initial stopes were processed at an average grade of 567 grams per tonne silver (-5% QoQ). In turn, total Juanicipio production during 2Q22 totaled 2.4M ounces (oz) of silver (-1% QoQ) and 5,609oz of gold (-4% QoQ).

Processing at the Saucito and Fresnillo plants continues. We stress that about 60% of the tonnes processed in 2Q22 were sent to the Saucito beneficiation plant, which is operated by Fresnillo (FRES.L; not rated). We also highlight that the Saucito plant characteristics remain favorable for the processing of Juanicipio ore since its flowsheet better resembles the Juanicipio plant, while simultaneously providing useful metallurgical insight.

Nearing mill commissioning. MAG is still awaiting tie-in approval for the Juanicipio plant to the national power grid. In turn, the company reiterated strong progress on the required power system shutdowns, which should permit the final tie-in of the Juanicipio sub-station to the national grid. As a result, the commencement of electrical commissioning of the plant is anticipated in the next few weeks. Looking ahead, we believe MAG's ability to utilize its Saucito and Fresnillo plants continues to be paramount as the company looks to seamlessly transition to the Juanicipio facility in the near-term.

Decrease in commodity price deck in line with current market conditions. We note that macroeconomic headwinds, including a rise in interest rates amid continued turmoil throughout the general market, have begun to bleed over into precious metal prices as of late. In turn, we have begun reducing our long-term (12-month) gold price forecast to \$1,750/oz from \$1,900/oz concurrent with the release of 2Q22 production, earnings, and various pieces of news flow, for all relevant companies within our coverage universe beginning on July 18, 2022. In addition, we are lowering our silver price forecast to \$19.00/oz from \$25.00/oz. We last implemented an increase to our price deck in August 2020. In contrast, the current market sell-off related to a potential recession, inflationary concerns, and most notably, ongoing rate increases, has led us to take a more conservative stance on precious metal pricing going forward.

We reiterate our Buy rating on shares of MAG Silver while lowering our PT to \$16.50 from \$21.50. Our reduced PT is the direct result of adjusting our precious metals price deck. 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. In our view, the commissioning of the Juanicipio plant currently remains the largest near-term catalyst for MAG. We reiterate that the commissioning of MAG's new electrical system is anticipated over the next few weeks, followed by commissioning of the grinding mills. Going forward, MAG's management team presently maintains that its targeted ramp-up (to 85 – 90% of nameplate capacity by year-end) remains within reach. Management has also reiterated its ability to deliver the first concentrates from its Juanicipio facility in 2H22 since over 100,000t 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.

| MAG Silver Corp | | | | | | | | | | | | | | | |
|--|--|--------------|---|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--|
| Juanicipio | | 2022E | 2023E | 2024E | 2025E | 2026E | 2027E | 2028E | 2029E | 2030E | 2031E | 2032E | 2033E | 2034E | |
| 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% | |
| 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 | \$ 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 | 99,877 | 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 | |
| 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% | 48.4% | 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 | \$ 28,096 | \$ 30,880 | \$ 37,967 | \$ 42,523 | \$ 46,826 | \$ 35,942 | \$ 36,195 | \$ 49,864 | \$ 41,511 | \$ 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% | (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% | | | | | | | | | | | | | |
| 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 | |
| % 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 | | \$ 1,039,751 | Note: Fresnillo owns 56%, MAG the remaining 44% | | | | | | | | | | | | |
| Fully Diluted Shares ('000s) | | 99,707 | | | | | | | | | | | | | |
| Juanicipio NAV per share | | \$ 10.43 | | | | | | | | | | | | | |
| Multiple | | 1.4 | | | | | | | | | | | | | |
| Juanicipio current value | | \$ 1,455,651 | | | | | | | | | | | | | |
| Juanicipio Value per share | | \$ 14.60 | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Cinco de Mayo value | | \$ 125,000 | | | | | | | | | | | | | |
| Multiple | | 1.0 | | | | | | | | | | | | | |
| Cinco de Mayo fair value | | \$ 125,000 | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| Plus Cash & Equivalents | | \$ 52,248 | \$ 0.52 per share | as of 3/31/22 | | | | | | | | | | | |
| Plus Finished Goods | | \$ - | | | | | | | | | | | | | |
| Plus Exploratory Assets | | \$ 18,158 | \$ 0.18 per share | as of 12/31/21 | | | | | | | | | | | |
| Plus ownership in Reyna Silver Corp. (RSLV.V) | | \$ 4,428 | \$ 0.04 per share | based on 14.6M common shares at C\$0.39 as of 7/27/22 | | | | | | | | | | | |
| Less Debt | | \$ - | | | | | | | | | | | | | |
| Total Current Value ('000s of US\$) | | \$ 1,655,485 | | | | | | | | | | | | | |
| Basic shares | | 97,854 | As of 5/13/22 | | | | | | | | | | | | |
| Options, DSU's, RSU's, and PSU's | | 1,853 | As of 5/13/22 | | | | | | | | | | | | |
| Fully Diluted Shares ('000s) | | 99,707 | As of 5/13/22 | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | |
| NAV per share | | \$ 16.60 | | | | | | | | | | | | | |
| Rounded (\$0.50) price target | | \$ 16.50 | | | | | | | | | | | | | |
| Current MAG share price | | \$ 12.45 | 24.5% discount to price target as of 7/27/22 | | | | | | | | | | | | |
| Source: H.C. Wainwright & Co. estimates. | | | | | | | | | | | | | | | |

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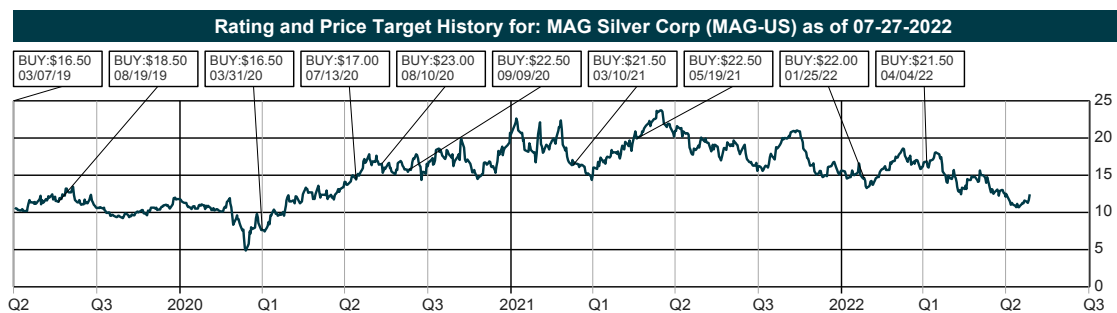
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| Distribution of Ratings Table as of July 27, 2022 | | | | |
|---|-------|---------|---------------------------|---------|
| Ratings | Count | Percent | IB Service/Past 12 Months | |
| | | | Count | Percent |
| Buy | 563 | 87.83% | 146 | 25.93% |
| Neutral | 60 | 9.36% | 12 | 20.00% |
| Sell | 2 | 0.31% | 0 | 0.00% |
| Under Review | 16 | 2.50% | 1 | 6.25% |

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