Silvercorp Metals Inc Equity Research

Metals and Mining Sector
Date: 10/21/2011
Senior Trader: Victor Kuntzevitsky Email: kuntzev@gmail.com
Fund Manager: Igor Kremenjas Email: kremeni@mcmaste.ca
Associate: Alex Cowman Email: alexcowman@live.ca
Associate: Artiom Novikow Email: novikoa@mcmaster.ca
Associate: Cheri Lawley Email: cherilawley@gmail.com
Associate: Dean Brown Email: browndm4@mcmaster.ca
Associate: Vince Ferraiuolo Email: ferraiva@mcmaster.ca

Stock Rating:

5 buy, 1 hold, 0 sells

Sector Weighting:

Outperform Market

October 21st 2011
Price Target: $13.45
Target Price Date: 02/01/2011

Company Market Statistics

Ticker: SVM
Exchange: TSX

Fiscal Year End	March 31
52-week range (High/Low)	$5.81/$15.60
Shares Outstanding	175mil
Avg. Daily Trading Vol.	1.91mil
Market Capitalization	$1.43bil
Quarterly Dividend	$0.02
Dividend Yield	0.98%
Price/Earnings	17.68
Enterprise Value	1.26bil
EV/EBITDA	10.94
Price to Book	3.481
BETA	1.87
Short Interest %	0.7%

Revenue Breakdown ($thousands)

06/2011: 67,286
03/2011: 38,656
12/2010: 51,509
09/2010: 39,030

Annual Earnings per Share (EPS)

2011	$0.40
2010	$0.24
2009	$-0.14
2008	$0.41

Highlights

- Primarily involved in acquisition, extraction, and production of high grade silver in China and now expanding into Canada
- Operate four silver-lead-zinc mines in China
- Undervalued due to recent short-selling scandal which was cleared by an independent firm and resulted in the stock price soaring over 10% the next day

Overview

Silvercorp Metals primary operations are in China, where they are deemed the largest primary silver producer. Silvercorp metals trades on both the TSX and NYSE under the ticker SVM. The company is engaged in the acquisition, development and mining of high grade silver with four silver, lead, zinc mines in China and one prospective mine in British Columbia. The four primary mines include:

Ying Mining District (77.5% SVM): Flagship mine producing 4.25mil ounces of silver, 1800 ounces of gold, 52.9mil pounds of lead and zinc.
TLP Mine (77.5% SVM): Third largest mine covering 3.3km^2 and producing 0.66mil ounces of silver, 200 ounces of gold, 9.8mil pounds of lead and zinc.
HPG Mine (80% SVM): Second largest mine covering 5.86km^2 and together with the LM mine produce 0.39mil ounces of silver, 1200 ounces of gold, and 6.2mil pounds of lead and zinc
LM Mine (80% SVM): Production began in 2008 and includes a permit covering 3.07km^2.

Silvercorp is able to actually mine silver at a net cost of $-6.12/ounce because of their operations in zinc and lead. These operations not only pay for mining the zinc and lead, but also pay for mining the silver and a small profit.

News and Events

Silvercorp's primary operations are in China with a couple of prospectus mines in Canada to help with geographic diversity. They are the largest silver producing company in China, who is one of the largest consumers of silver. China is known to have a large black market operation in mining, however the government has been consistently increasing their efforts to liberate this activity. China operate under a lower 25% tax regime after 5 years of operation, while prior to that, companies are only required to pay 12.5% taxes. Some speculate the risk of projects being taken away from foreign companies, this has not yet occurred, and no Sino-foreign company has ever been formally denied a mining permit.

Silvercorp experienced a rapid decline in their stock price because of what they are claiming to be a "Stock Manipulation Scheme." On September 23, Silvercorp filed a lawsuit against the individuals who initiated the "false, defamatory, and fraudulent" information about Silvercorp. In an attempt to regain investor confidence, Silvercorp bought back $35 million worth of shares on September 22, while also releasing updated information for investors to demonstrate the fraudulent claims made against the company.

Silvercorp is planning to expand its exploration through a recent prospectus in British Columbia, as well as expanding their operations in the Ying mining district in China. The company is also actively seeking companies near their own in the Ying mining district to consolidate with their current operations. As part of the Chinese governments crack down on non-tax paying mining operations, Silvercorp looks to benefit on the ability to bid on such projects as they did with their TLP mine. Silvercorp is also continuously searching out acquisition opportunities with which they can estimate a one year payback. The company recently acquired the GC/SMT projects in Guangdong province.

Company Risk

The biggest risk to the company's profit is the volatility of silver metal prices. If the prices of silver correct it could affect the company's revenue for the upcoming years. Silver is in a long term uptrend, so this risk is well contained.

BETA	Moody's Rating	5 YR CDS
1.14	A2	85 bp
	WACC	
	23	

Generously Sponsored By:

Russell Investments · RBC Dominion Securities · STALLA · dcs · Phincorp Capital Markets · Breaking Into Wall Street

Peer Comparison

Ticker	Market Cap	Price	Div. Yield	Trailing P/E	Forward P/E	Annual Revenue	1-Mo Return	3-Mo Return	1-Yr Return
SVM.TO	C$1.49B	C$8.59	0.93%	17.45	15.18	C$199.58M	-2.90%	-0.16%	84.52%
PAA.TO	C$3.01B	C$28.86	0.34%	10.43	9.26	C$650.95M	-12.25%	-0.02%	63.81%
SLW.TO	C$10.69B	C$31.06	0.37%	22.09	15.62	C$436.06M	-20.22%	0.44%	145.47%
CDM.TO	C$2.03B	C$23.15	0.00%	0	9.05	C$530.93M	-19.43%	3.07%	43.60%

SVM is the smallest company by market cap compared to its four main peers. It's dividend yields the highest annually. The company is projected to have a 85% one year return.

Revenue and Earnings

Increase in annual revenue from 2010 was mainly due to increasing silver prices. Net income and the earnings per share also increased from 2010 to 2011. Silver and Gold led the metals in higher commodity price s which are reflected in the revenue, income, and earnings per share increases in Silvercorp metals.

Revenue

	Q1	Q2	Q3	Q4	Total
2011	$ 37,757.64	$ 37,770.76	$ 52,492.26	$ 41,822.46	$ 169,843.12
2010	$ 26,362.48	$ 27,549.35	$ 33,034.80	$ 29,360.81	$ 116,307.44
2009	$ 31,167.63	$ 20,936.63	$ 18,369.14	$ 21,563.31	$ 92,036.71
2008	$ 24,436.33	$ 30,516.62	$ 29,520.52	$ 26,919.94	$ 111,393.41

Net Income

	Q1	Q2	Q3	Q4	Annual Total
2011	$ 14,516.48	$ 12,941.93	$ 30,110.29	$ 2,384.46	$ 59,953.16
2010	$ 8,744.67	$ 9,766.68	$ 13,103.89	$ 10,153.11	$ 41,768.35
2009	$ 11,717.37	$ 5,058.35	-$ 40,806.64	$ 1,541.33	-$ 22,489.59
2008	$ 15,887.50	$ 1,754.66	$ 17,444.09	$ 10,948.78	$ 46,035.03

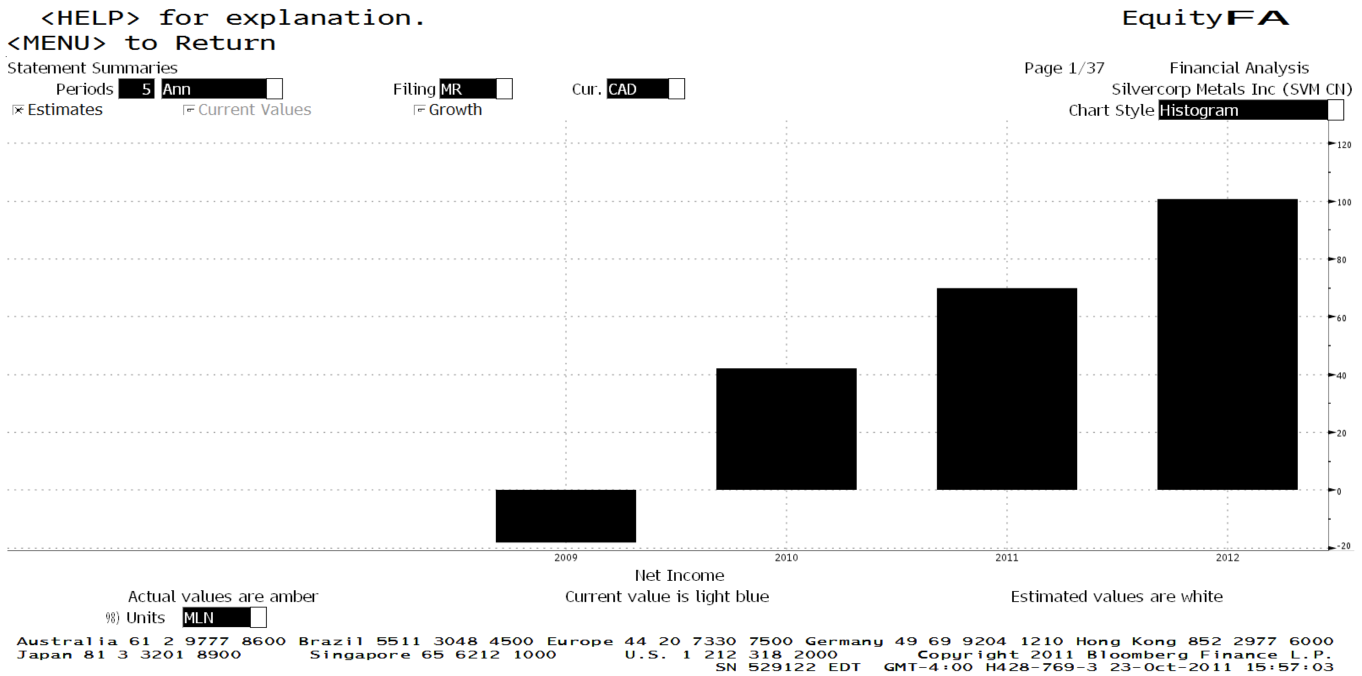
EPS

	Q1	Q2	Q3	Q4	Total
2011	0.09	0.08	0.18	0.07	0.42
2010	0.06	0.07	0.08	0.06	0.27
2009	0.08	0.03	-0.27	0.01	-0.15
2008	0.11	0.12	0.12	0.07	0.42

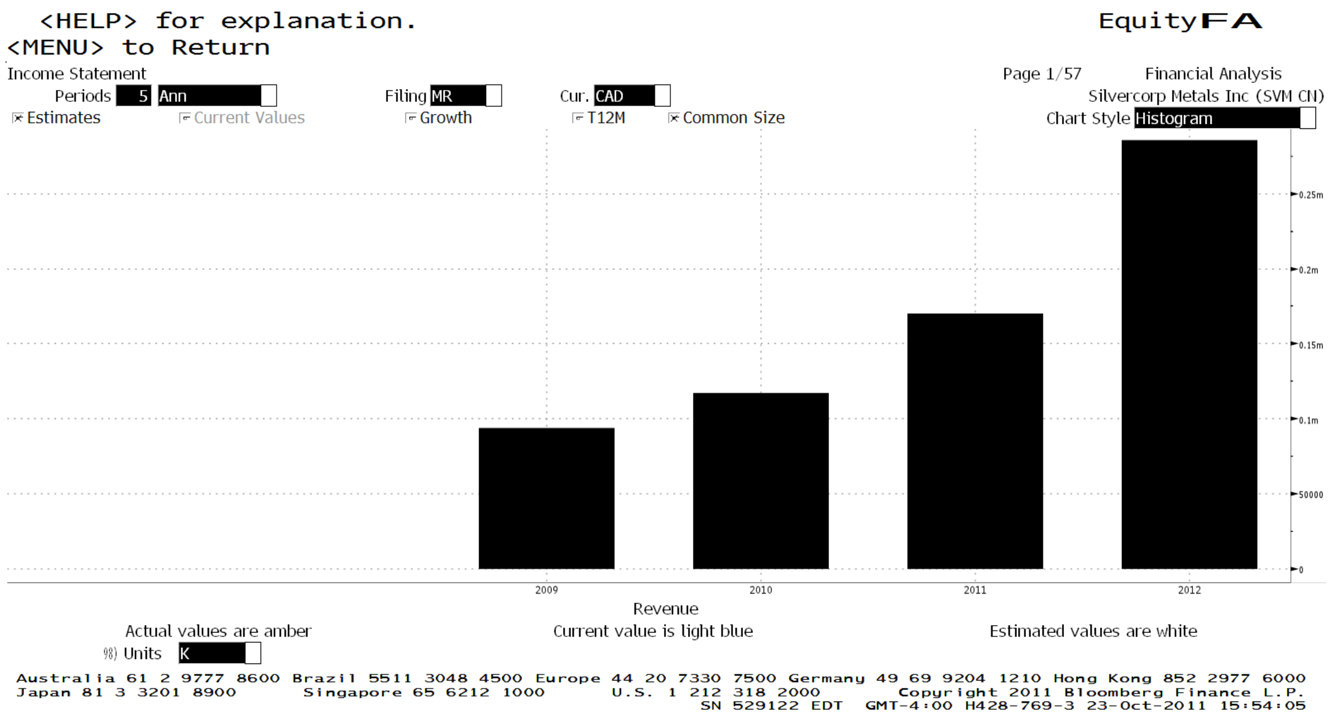
Generously Sponsored By:

Russell Investments · RBC Dominion Securities · STALLA · dcs · Phincorp Capital Markets · Breaking into Wall Street

Annual Net Income



Annual Revenue



FUNDAMENTAL RATIO ANALYSIS

The company is operating with zero debt. Therefore, their current ratio is relatively low and Silvercorp is able to pay off their current debts with current assets over five times in the short term. The Price to earnings ratio makes them relatively undervalued compared to their peers, primarily due to the stock price being affected by the recent short selling scandal that was cleared.

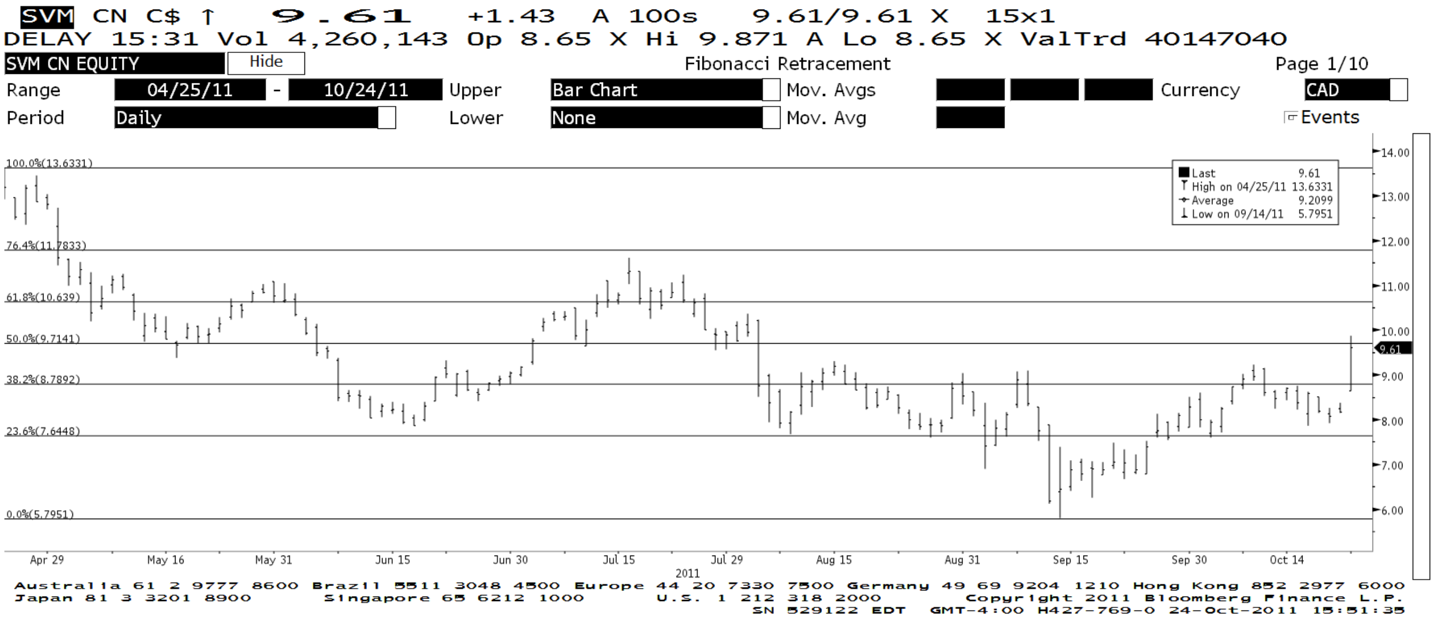
Revenue Growth (2011-2010)	56.15%	**ROE**	22.07%	**Current Ratio**	5.87	**Price to Book (Current)**	3.49
Gross Margin	74.55%	**ROA**	17.36%	**Quick Ratio**	5.75		
Profit Margin	41.15%	**P/E (Current)**	18.49	**Debt/Capital**	0.00%		

CASH FLOW ANALYSIS

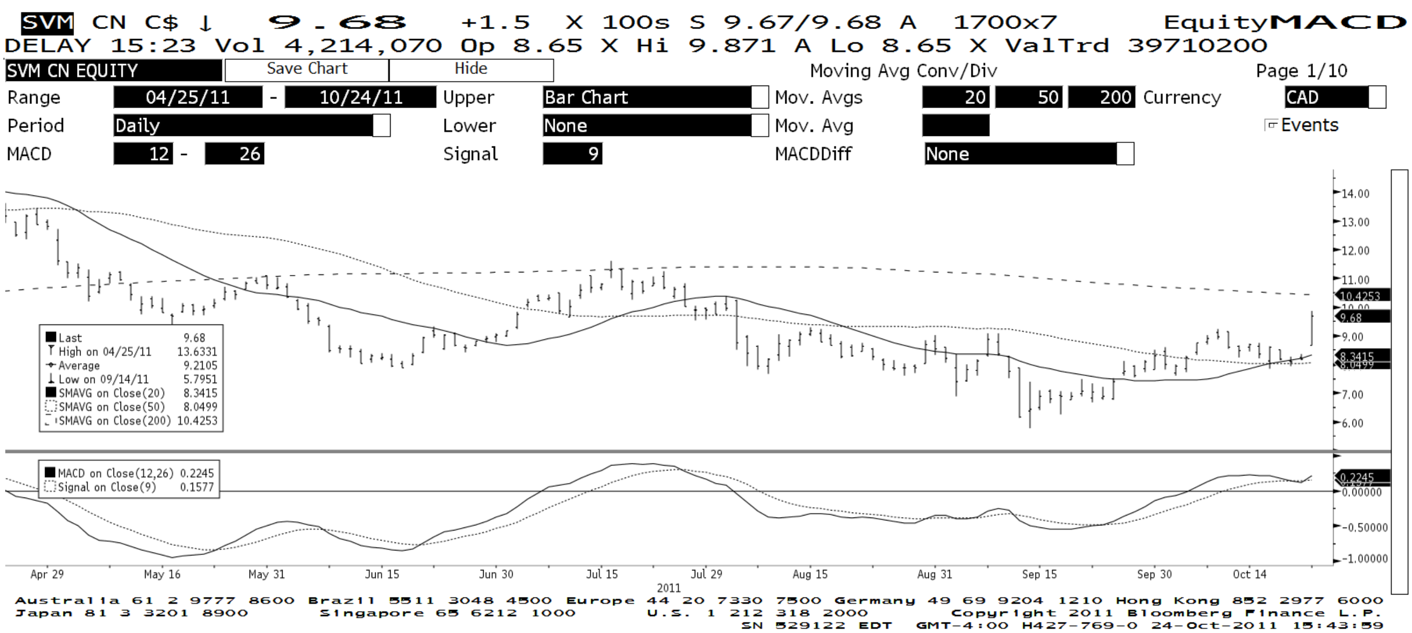
Net Cash Position	$142.77mm	**Dividend**	$0.0813	**Div. Growth Rate**	15%	**Price/Cash Flow (Current)**	12.67
FCF Per Share	$ 0.42	**Dividend Yield (Current)**	0.93%	**Cash from Operation**	$105.98mm		
FCF Yield (Current)	5.19%	**Dividend Payout**	19.50%				

The company's net cash flow is used to pay back their investors in the form of dividends. SVM has the highest dividend yield out of all of its peers. This signals confidence to the investors and forecasts positive cash growth in the future.

TECHNICAL ANALYSIS



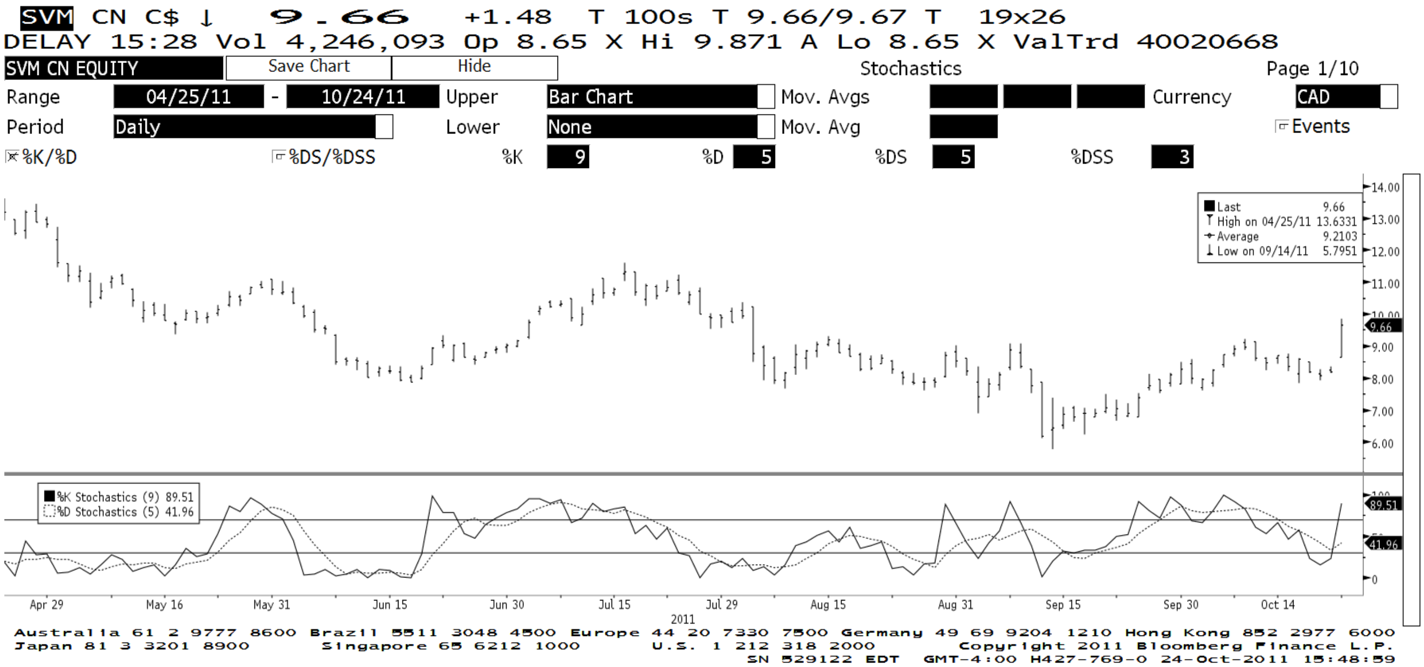
Above, Fibonacci Retracements highlight areas of support and resistance. The nearest resistance area is 9.71, while the nearest is support at 9.00 psychologically, then 8.76.



Moving averages of 20, 50, and 200 days. The 20 day crossover 50 is a bullish signal. The MACD indicator also is giving a buy signal.

Generously Sponsored By:

Russell Investments RBC Dominion Securities STALLA dcs Phincorp Capital Markets Breaking into Wall Street



Stochastic measures the location of current price in relation to its price range over a 9 day period. It is giving a buy signal as well.

SELECTION METHODOLOGY

SVM.TO was screened by market capitalization over one billion to avoid small and more uncertain companies, price to earnings ratio under 20 for value, positive revenue growth, positive earnings growth, and positive net income growth. All these factors combined with the recent stock publicized scandal that was cleared made the company very attractive and undervalued.

We have a price target of 13.45 because that is the nearest strong resistance SVM will encounter. Technically if it breaks near resistance of 9.70 it has a lot of upside before encountering major resistance nearing the 14$ level. Bloomberg analysts average price targets are 13.50.

Generously Sponsored By: