Silvercorp Metals Inc.

Third Quarter Fiscal 2023 Financial Results Conference Call

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CORPORATE PARTICIPANTS

Lon Shaver
Silvercorp Metals Inc. — Vice President

CONFERENCE CALL PARTICIPANTS

Justin Stevens
PI Financial — Analyst

Joseph Reagor
ROTH MKM — Analyst

Felix Shafigullin
Eight Capital — Analyst

Gabriel Gonzalez
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PRESENTATION

Operator

Thank you for standing by. Good morning. My name is Lara and I will be your conference operator today. At this time I would like to welcome everyone to the Silvercorp Third Quarter Fiscal 2023 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star then the number one on your telephone keypad. If you would like to withdraw your question, please press star then the number two. Thank you.

I would now like to turn the conference over to Lon Shaver, Vice President, for opening remarks. Please go ahead, sir.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thank you, Lara. On behalf of Silvercorp, I'd like to welcome everyone for joining this call to discuss our third quarter fiscal 2023 results, which were released yesterday after market. A copy of the news release, the MD&A, and financial statements for today's call are available on our website and on SEDAR.

Before we get started, I'm required to remind you that certain statements on today's call will contain forward-looking information within the meaning of applicable securities laws. Please review the cautionary statements included in our news release and presentation as well as the risk factors in our most recent 10-Q and Form 40-F and annual information form.

So, to kick it off with a review of our quarterly financial results with respect to the quarter, revenue in Q3 was $58.7 million. That's down 1% compared to the prior year quarter and that's mainly due to a decrease of $4.6 million from lower silver, lead, and zinc prices, but offset by an increase of $4.2 million from higher silver and lead sold. Based on production levels and realized prices in this quarter, silver was 54% of revenues on a net realized basis, the same as in Q3 of last year.

Q3 net income attributable to equity shareholders was $11.9 million or $0.07 per share. That compares to a net income of $5.1 million or $0.03 per share in the same period last year. The main contributor to the gain was an increase of 8% and 12% in silver and lead sales, respectively; a 13% increase in the realized selling price for gold; and a gain of $3 million on equity investments. Also you'll recall we had a write-down in the previous quarter which affected net income. These were partially offset by a 6% decrease in zinc sales and, as I mentioned, lower realized selling prices for silver, lead, and zinc, which decreased 7%, 8% and 13%, respectively. We also experienced a foreign exchange loss in this quarter of $800,000 and that was from the depreciation of the US dollar which occurred over the quarter.

On an adjusted basis, with the adjustments made to remove the impacts of non-cash and unusual items such as impairment charges, share-based compensation, foreign exchange loss that I mentioned, the share of loss in associates operating results, gains and losses on investments and one-time items, the earnings for the quarter were $11.8 million or $0.07 per share, which compared to $13.4 million or $0.08 per share in the same period last year. And just a reminder, we're providing the suggested earnings as a supplemental non-GAAP measure to give investors another metric to better measure the performance of the underlying business, its continuing profitability, and growth potential.

Our cash flow from operations in the quarter was $25.7 million. That compared to $28.7 million in the prior year quarter. The decrease was mainly due to the previously mentioned factors on income but offset by a $1.7 million change in non-cash working capital. Before changes in non-cash working capital, our cash flow in the third quarter was $24 million, and that's compared to $20.9 million in Q2 of this year but $28 million in Q3 of last year.

Capital expenditures totalled approximately $15.6 million in the last quarter, down from $18.7 million in the prior year quarter, mainly due to decreased underground exploration and drilling.

We ended the quarter with $210.3 million in cash and cash equivalents and short-term investments, up from $201 million at the end of last quarter but down modestly $2.7 million from our March year end of last year and, again, largely due to a negative $9.9 million translation impact from the appreciation of the US dollar against the Canadian dollar and Chinese RMB. This cash position does not include our investments in associates and other companies, which had a total market value of $121.8 million as of December 31st. Not necessarily the best ending period to track these investments, as obviously we've seen a rebound in the markets here in January. At December, New Pacific represented $98 million of that $121.8 million.

Now we've released our production numbers, but just to give a quick recap, quarterly production, as we reported, we mined 296,000 tonnes of ore, milled 303,000 tonnes of ore. Those were essentially flat compared to the same quarter last year. We produced, on a consolidated basis, approximately 1.9 million ounces of silver, 1,100 ounces of gold, 20.1 million pounds of lead, 7 million pounds of zinc in the quarter, and that was increases of 1%, 0%, and 6% in silver, gold, and lead, and a decrease of 13% in zinc production over Q3 of fiscal 2022. Sales in the quarter, 1.9 million ounces of silver, 1,100 ounces of gold, 19.3 million pounds of lead, and 7.1 million pounds of zinc. Those are increases of 8%, flat, and 12%, respectively, in silver, gold, and lead and a decrease of 6% in zinc sales over the same period last year. The cash cost per ounce of silver net of by-product credits was negative $1.15 in the third quarter compared to negative $1.33 in the prior year quarter. The increase in the cost was mainly due to lower by-product credits but offset by a decrease in expensed production costs. The all-in sustaining cost per ounce of silver net of by-product credits was $9.28 compared to $8.82 in Q3 of fiscal 202. The increase is mainly due to an increase in sustaining capital expenditures but offset by a decrease in admin expenses and mineral resource tax.

Looking at nine-month results, 887,000 tonnes of ore were mined and we milled 893,000 tonnes. Both of those numbers up 9% compared to the prior period. Year to date we've sold 5.5 million ounces of silver, 3,400 ounces of gold, 55.7 million pounds of lead, and 20 million pounds of zinc, representing increase of 9%, 17%, and 9%, respectively, in silver, gold, and lead sold and a decrease of 11% in zinc sold. For the nine-month period the consolidated cash cost per ounce of silver net of by-product credits was negative $0.68 compared to negative $1.47 in the same prior year period. Consolidated all-in sustaining cost per ounce of silver for this nine-month period, net of by-product credits, was $8.94, and that compares to $7.88 in the same prior year period. Compared to our fiscal 2023 production guidance, on a consolidated basis after nine months, or 75% of the year, our milling tonnage is at 83% of the target. And with respect to the metal production, we've hit 77% of our silver target, 82% of our lead target, but only 60% of our zinc target for the year.

Turning to our growth projects, we completed an additional 978 metres of drilling during the quarter at the Kuanping Project, which is a satellite property located north of Ying that we acquired in November of 2021. Last quarter we received the Kuanping mining license from the Department of Natural Resources, which covers the 6.9 square kilometre property and is good until March of 2029. Going forward in this year, fiscal 2024, we're planning to carry out studies to complete the environmental assessment, water and soil protection assessment, and preliminary safety facilities and mine design reports. Further updates on the mine construction plan and cost estimates will be provided once we've completed those reports and, as a result of those reports, we should have the permits in hand. As of December 31st we've spent a total of $4 million on the construction of a new 3,000 tonne per day flotation mill and the new tailings storage facility at Ying, a total of 2,147 metres of drainage tunnels were completed, and the site preparation for the new mill was also substantially completed. The first batch of $4.1 million of milling equipment was ordered. With regards to permitting, the environmental assessment study report was revised and is pending government approval. This is for the mill. We're fully good to go on the tailing storage facility.

Now turning to the fiscal 2024 guidance that we've also provided in this release, so, as it relates to production, cost, and capital expenditures in fiscal 2024, we expect to mine and process approximately 1.1 million to 1.17 million tonnes of ore, which is expected to produce between 4,400 to 5,500 ounces of gold, 6.8 million to 7.2 million ounces of silver, between 70.5 million and 73.8 million pounds of lead, and 27.7 million to 29.7 million pounds of zinc. This guidance for fiscal 2024 represents anticipated increases of between 3% and 8% in ore, flat to up 26% in gold production, between 3% and 8% increase in silver, between 3% and 8% increase in lead, and between 14% to 23% in zinc compared to our expected production results completing here in fiscal 2023.

In terms of cost guidance for the next year, we're anticipating between $78.2 and $80.5 per tonne on a cash cost basis, between $136.4 and $142.4 on an all-in sustaining basis. Overall CapEx for fiscal 2024 is forecast at $64.7 million with roughly $21.8 million going towards Ying's equipment and facilities, construction of the tailings storage facility, a paste backfill plant, and we're adding an XRT ore sorting system to optimize the mine plan and improve ore processing head grades. The tailings storage facility is expected to be completed in 2024 and we're now anticipating completing the new 3,000 tonne per day mill at Ying being delayed by one year and being also completed in calendar 2024.

With that, I would like to open the call for questions.

Q & A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. Should you have a question, please press the star followed by the number one on your touchtone phone. If you would like to withdraw your request, please press the star followed by the number two. One moment please for your first question.

Your first question comes from the line of Justin Stevens from PI Financial. Please go ahead.

Justin Stevens — Analyst, PI Financial

Hi, Lon. Good to see the quarterly results and the guidance for next year. I mean fiscal 2024 guidance seems to be pretty positive, I'd say, relative to 2023. Costs are trending well on higher production than what I was looking for. I'm just curious, was the drop in dollar per tonne costs that you're projecting here due primarily to lower mining cost for mechanization or is it something else? Because it seems to be a nice little drop from what you've been looking for for fiscal 2023.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, that is part of the shift, and really some of that comes down to already being invested in the tunnels and access. But yeah, as you've noted, we are, with some of the things that have been worked on and looked at, both at GC and Ying, seeing some opportunities to optimize with a bit of a shift in mining methods and also bringing in more mechanization. But obviously the contributors to those numbers have a lot of factors, exchange rates, cost per tonne for both the tunnel development, ore development, that kind of thing. But overall, those are the numbers we're looking at at this point.

Justin Stevens — Analyst, PI Financial

Yeah, on that, I mean obviously the consumables and sort of the steel and the like that goes in to the cost here, what have you sort of been seeing just from your suppliers, in terms of the cost trend? Have (inaudible) sort of input stabilized or have you seen a bit of a drop? Or is it just sort of keeping steady with what you had last year?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I think for the most part things are pretty steady. I think we've seen a few nominal increases on RMB terms on a few items, but nothing really alarming and nothing sort of over what we saw and anticipated when we gave guidance last year for this year on some key items. So there really hasn't been a tonne of changes. But obviously, in both from a quarter period, even within the quarter, if you look at exchange rates and things, what we end up reporting in US dollars can fluctuate based on that RMB to US dollar rate.

Justin Stevens — Analyst, PI Financial

For sure. Yeah. So, just to make sure I've got my timing right here, the deferral of the mill three here by a year, so should we be now expecting that to be commissioned maybe like the end of calendar 2024 and then ramping up, I guess, properly in fiscal 2026?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yes, that's right.

Justin Stevens — Analyst, PI Financial

Okay. Got it. Obviously, it's good to see the receipt of the Kuanping permit. Maybe can you just give a bit more detail if you guys are planning to do more drilling there? Or is the focus really on the studies before coming back with any more exploration?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Yeah, I think the drilling is pretty much wrapped up there. Like with the mining permit, really now it's kind of more just an administrative thing to come back. There's sort of a checklist of a safety assessment, preliminary mine design and safety facilities design that has to get submitted. There's sort of routine soil and water protection assessment reports in terms of what you, you know, how you say you're going to address issues, overall an environmental assessment report, and then that leads to getting those things signed off that you can then get into actual mine site construction and ramping it.

Justin Stevens — Analyst, PI Financial

For sure. No, that makes sense. I mean on that, obviously, I think the dovetailing of the timing there with the new mill would make sense. Obviously, even if it's relatively straightforward, just like you say, walk through the checklist that you need to do to get approvals here, I'm assuming but, yeah, the timeline that you'd be looking at for a potential production of that wouldn't be until the new mill is up running.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, we actually could see ore, I think, earlier than that, and so it's just a matter, like I said, of getting those reports done, getting in and really working through the mine plan to see sort of what's a healthy rate of production based on what you see when you get underground, the way the resources and reserves are oriented. So I think we could see it earlier than that, but really the timing of Kuanping isn't really the factor as it relates to the mill. I think really what we've identified is that there's opportunities in the meantime to really focus on some mine optimization and, ironically, some of the work that's been done at GC has led to looking at implementing some of these technologies at Ying. So it's more getting the mine at Ying and some of the facilities ready. And you'll notice that, looking at Ying in terms of the numbers, both this year and next year we've got some healthy spending and work plans in terms of ramping, so some of that ramp is to really open up and access more areas within all of the mines at Ying and really streamline the ability to up the production rate in the future.

Justin Stevens — Analyst, PI Financial

Got it. And just one last one for me. What should we expect sort of in terms of a reserve and resource update? Obviously you guys have been doing (inaudible) reports for Ying, which has been good to see, but are you planning to do sort of a regular annual update here to bring some of the, obviously, the new drilling in, or is that just going to be sort of ad hoc?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, typically, what our general policy had been was to do one a year and alternate between GC and Ying. Obviously, with just having done the Ying report that we published last September, it might be early to go back and tackle Ying it again. But I think that remains open to see whether or not we've got real fundamental changes in terms of what we see in the numbers.

Justin Stevens — Analyst, PI Financial

Got it. Perfect. That's it for me. Thanks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Justin. Appreciate it.

Operator

Thank you. Your next question comes from the line of Joseph Reagor from ROTH MKM. Please go ahead.

Joseph Reagor — Analyst, ROTH MKM

Hey, Lon and team. Thanks for taking the questions.

Lon Shaver — Vice President, Silvercorp Metals Inc.

No, thanks, Joe.

Joseph Reagor — Analyst, ROTH MKM

So, a lot of the stuff I wanted to touch on already was, but on the mill delay, is there any other colour you can give us as to why? Is it a matter of like timing of equipment or just things have taken longer than expected or impacts from COVID or what? Like what was the reason for the push out by a year?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, I think we'd kind of communicated in the last call that some of the face time necessary to deal with moving things ahead just wasn't happening because of inability to travel and so now back on that. And the plan is definitely to push through what we're calling largely administrative items to get the final permits. But in the meantime, you realized that there's sort of other things that you can and should do within the mines themselves to get tuned up. The tailings storage facility is obviously a priority for the long term. We know there's a lot more tonnes that we're going to be pushing through whatever mills we're running, so we definitely have to get moving on that. So that's a priority. So I think it's just really a prioritization of management time and effort and, as I said, there's some opportunities that we see to work on addressing the mines with the paste backfill plants going in, with the first one going in at probably the LMW mine. The sorting that we've been putting in and are going to finish up at GC, we're going to put that XRT sorter in at the TLP mine, which will probably address or be used for the ore from TLP and both LMW and LME. So, when you look at those sorts of things, the ramp development, I think that it was just viewed that let's work on some of those aspects prior to pushing ahead with a mill, which will obviously consume a lot of people's time and attention.

Joseph Reagor — Analyst, ROTH MKM

Okay. And then for the mill, what's the remaining capital to be spent like on the whole project?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I mean largely, the bulk of it. We've ordered equipment, but we haven't paid for, it hasn't been delivered. So that spending for the mill and the tailings facility, as we disclosed, was up to $4 million combined as of the end of December and so we have the bulk of the roughly $70 million combined for both to spend.

Joseph Reagor — Analyst, ROTH MKM

Okay. All right, that's helpful. I'll turn it over.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Okay. Thanks, Joe.

Operator

Your next question comes from the line of Felix Shafigullin from Eight Capital. Please go ahead.

Felix Shafigullin — Analyst, Eight Capital

Hi. Thank you. Congratulations on quarter one. Most of my questions have actually been answered, but I just wanted to, ah, I was just curious, I'm seeing some very pronounced drops in mining and milling costs sort of in the later quarter compared to the previous ones, so could you give a little bit of colour on that, like what's behind that?

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, some of that relates to, if you're referring to the mining cost, some of that relates to, ah, from a development tunnels and access. We had said that we were looking to shift some of our priorities in the past from more development exploration tunnels that get expensed to drilling. We're now several years into drilling, you know, fairly aggressive programs, and the main focus of that was to identify the near-term reserves in the mine plan that already had easy access to them so that we could be mining material without those development costs. I think that's probably the largest shift other than, as I mentioned, changes in exchange rates and things like that that have had an impact on costs.

Felix Shafigullin — Analyst, Eight Capital

So it's mainly a change in exchange rate and the fact that, you know, I guess more drilling is getting capitalized as opposed to expensed.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, no, it's not just that it's being capitalized, it's the fact that, from a mine planning standpoint, there's been a major exercise at the mines to go and say, all right, let's look at the quality of the resource that we have, the reserves that we have, and determine, from a prioritization standpoint, where is the material that we have that is sort of ready to be mined in a month, three months, six months, and do that based off of the existing access that we have underground and the drilling so that we can then go and say, look, let's take a bit of a break here on some of the tunnelling access, cut back on some of that cost, because we know where the near-term material is coming from.

Felix Shafigullin — Analyst, Eight Capital

Okay. That makes sense. Okay. Thank you.

Operator

Thank you. Ladies and gentlemen, as a reminder, should you have a question, please press star followed by the number one.

Your next question comes from the line of Gabriel Gonzalez from Echelon Capital Markets. Please go ahead.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Thank you and good morning, Lon. Thank you for taking our questions. I was just wondering, I've noted that the recent Ying technical report and prior quarter's MD&A didn't mention the XRT and backfill plant as part of the capital projects pipeline. I was just wondering if these were always considered part of that pipeline but just with the delay to the plant it's worth mentioning them explicitly as part of what you're doing or are these effectively new items that have been brought on, I suppose, in view of the delay or in view of the delay to the plant expansion.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Well, they're definitely new items as it relates to Ying, but I think as we get experience and see things, and obviously GC last quarter had posed some challenges and so some of the work that has been done at GC was to bring in that XRT to help upgrade the material out of the mine before it went to the mill, and so as we look at things and we look at trends and opportunities, the ability to bring in some of this technology on what I'd say is fairly modest in capital expenditure items are ways to just fine-tune the mine plan and the cost profile. And so, while they weren't contemplated before, we're constantly, as a group, a team looking at what are trends. And we touched on it on the call ability to add some mechanization and decrease a bit of the labour intensity that is being considered, because obviously, as was raised on this call, everybody's worried about cost inflation, whether that be consumables, energy, or labour. So, as we see areas where we can tweak and fine-tune and adjust, we're going to do that.

We haven't really put a lot of air time on this but, as anyone who's followed the Ying mines has known that we've gone from having more shrinkage to moving to cut and fill resuing. Now we're actually seeing an opportunity to move back to shrinkage because, from a productivity standpoint, the numbers are higher. And then if you combine that with an XRT, you can make up for some of the additional dilution you might face in that shift in mining method but not hurt what the actual mill grades are. So a long-winded answer, but these are new opportunities and new things that we see that we can add to the mix.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

Yeah. Sure. No, I think it's always good to weigh technology and the benefits where it's appropriate. I was just wondering, in regards to the XRT's use at the GC mine, do you have maybe a ballpark figure of what the NPV of that item would have looked like in terms of the impact that it's making? And do you also have an estimate of what that benefit, NPV benefit, might be to using it at the Ying mine?

Lon Shaver — Vice President, Silvercorp Metals Inc.

I don't have those numbers handy. I mean you can see from a cost standpoint it's a pretty nominal cost to bring it in. So, yes, I don't have a solid number in terms of what the actual NPV contribution to that is, but obviously we think there's an opportunity there to combine that with some of the mining shifts that we've seen but not use up or work ourselves out of the current capacity that we have with mill number one and two.

Gabriel Gonzalez — Analyst, Echelon Wealth Partners

No problem at all. It was more just the curiosity, you know, recognizing there is a modest capital cost, but had just been curious about the IRR and NPV. But that's all fine. Thank you very much for taking my questions.

Lon Shaver — Vice President, Silvercorp Metals Inc.

Thanks, Gabriel. Thanks for joining.

Operator

Thank you. This concludes the question-and-answer session. I would like to turn the conference back over to Lon Shaver, Vice President, for any closing remarks.

Lon Shaver — Vice President, Silvercorp Metals Inc.

That's great. Thank you, Lara, for hosting the call and thanks, everyone, for tuning in today. That's it for this call. Please, if you have any additional questions, as always, please reach out by phone or email and I'd be happy to answer. And we look forward to connecting next time for our call for our year-end results for the end of fiscal 2023. Thanks very much. Have a great day.

Operator

Thank you, sir. This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.