

EQUITY RESEARCH

November 14, 2022

Earnings Update

MAG SILVER CORP.

Third-quarter Results In Line; Grid Connection Awaits

Our Conclusion

MAG Silver reported net income of \$0.08 per share, relatively in line with our estimate of \$0.07 per share and consensus of \$0.09 per share. Mineralized development and stope material continues to be processed at the nearby Fresnillo and Saucito plants, with third-quarter production of 2.4Moz silver pre-reported.

As reported by the operator, Fresnillo, electrical commissioning of the processing plant continues to be expected in the coming weeks, after which Fresnillo expects the operation to reach 85%-90% of nameplate capacity within months of commissioning.

Overall, a neutral quarter for MAG Silver, with earnings in line with Street expectations and limited updates on progress towards the power connection for Juanicipio, which remains the final step to commissioning. MAG reported that the joint venture held \$18M in cash at the end of the quarter, and it expects cash flow from ongoing campaign processing along with working capital held at Juanicipio to substantially fund remaining capital requirements. We maintain our Neutral rating and C\$27.00 price target.

Key Points

Juanicipio Production: Third-quarter production results were pre-released. A total of ~181kt of mineralized development and stope material was processed through the Fresnillo and Saucito plants at an average head grade of 513g/t silver, for a total of 2.4Moz silver, 4.9koz gold, 1.3kt lead and 2.0kt zinc (on a 100% basis).

Financial Position: At the end of the quarter, there was a cash balance of \$18M at the Juanicipio JV, and MAG Silver held ~\$40M in cash and cash equivalents.

Capital Expenditures: Total Juanicipio expenditures incurred in Q3 on a 100% basis totaled \$36M, consisting primarily of \$27M in development expenditures, \$2M in exploration expenditures, and \$6M in sustaining capital.

Grid Connection: According to the operator, Fresnillo, the power connection delay is not expected to have any negative impacts on Juanicipio's planned 2023 production, and the plant is expected to ramp up to 85%-90% of nameplate capacity within months of commissioning. However, connection to the national power grid remains delayed. Fresnillo continues to make available excess processing plant capacity at its nearby Saucito and Fresnillo operations.

Exploration: A total of \$5.7M has been expended to date on the Juanicipio exploration program of the \$7M budgeted (100% basis), with five drill rigs on surface running concurrently with continued underground definition and geotechnical drilling.

Cosmos Chiu, CFA
+1 416-594-7106
Cosmos.Chiu@cibc.com

Erin Kyle, CPA
+1 416-313-9851
Erin.Kyle@cibc.com

Neutral

MAG-TSX, Sector: Materials

Current Price (11/14/22): C\$21.08

Price Target (12-18 mos.): C\$27.00

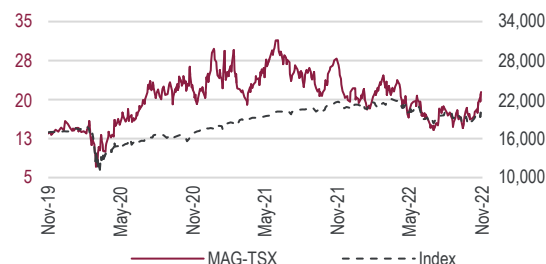
CIBC Estimates and Valuation

(Dec. 31)	2020	2021	2022	2023
Adj. EPS	(0.08)A	0.06A	0.46E	0.91E
Prior			0.42E	
CFPS	(0.06)A	(0.07)A	(0.10)E	(0.33)E
Prior			(0.13)E	
Adj. EPS	Q1	Q2	Q3	Q4
2022	0.13A	0.08E	0.08A	0.16E
Prior			0.07E	0.14E
2021	(0.04)A	0.03A	(0.02)A	0.08A
CFPS	Q1	Q2	Q3	Q4
2022	(0.02)A	(0.03)E	(0.02)A	(0.04)E
Prior			(0.04)E	(0.05)E
2021	(0.02)A	(0.00)A	(0.01)A	(0.04)A
Valuation	2020	2021	2022	2023
P/E	NM	NM	34.6x	17.5x
P/CFPS	NM	NM	NM	NM

Stock Performance and Key Indicators

Avg. Dly. Vol.:	179K	Shares O/S:	98.5M
Market Cap.:	C\$2,077M	Float:	81.1M
52-wk Range:	C\$14.02 - C\$26.08	Div. / Yield:	C\$0.00/0.00%

TSX Composite Index vs. MAG-TSX



(Source: FactSet)

All figures in US dollars unless otherwise stated (C\$1.327:US\$1.00).

Please see "Price Target Calculation and Key Risks to Price Target" information on page 4.
For required regulatory disclosures please refer to "Important Disclosures" beginning on page 5.

MAG Silver Corp. (MAG-TSX) — Neutral

Price (11/14/22) C\$21.08 12-18 mo. Price Target C\$27.00

Sector: Materials

Cosmos Chiu, CFA +1 416-594-7106 Cosmos.Chiu@cibc.com

Key Financial Metrics	2020	2021	2022E	2023E
Working Capital	95	58	51	153
Net Debt	(94)	(57)	(50)	(152)
Per Share Data	2020	2021	2022E	2023E
CFPS	(0.06)	(0.07)	(0.10)	(0.33)
Adj. EPS Dil.	(0.08)	0.06	0.46	0.91
Income Statement	2020	2021	2022E	2023E
Sales	0	0	0	0
Cost of Goods Sold	0	0	0	0
Gross Profit	0	0	0	0
SG&A	(9)	(11)	(12)	(12)
EBITDA	(9)	(3)	49	106
Adj. EBITDA	(6)	(15)	51	182
D&A	0	0	0	0
EBIT	(9)	(2)	49	106
Net Interest Income	15	0	0	2
Associates & JVs	-	16	62	119
Exceptionals	0	0	(11)	0
Tax Expense	(2)	2	(4)	(22)
Net Income	(7)	6	35	87
Adjusted Net Income	(7)	6	45	87
Cash Flow Statement	2020	2021	2022E	2023E
Operating Activities				
CFO before WC	(6)	(7)	(10)	(31)
Change in WC	(0)	0	(2)	0
CFO	(6)	(7)	(11)	(31)
Investing Activities				
Capex	(0)	(74)	(6)	0
Acquisit & Invest	(5)	(7)	(1)	0
Net CFI	(65)	(75)	2	134
Financing Activities				
Change in Debt	93	0	0	0
Equity Raised	93	44	0	0
Other Financial Act	(0)	(0)	(0)	(0)
Net CFF	92	44	(0)	(0)
Net Cash Flow	22	(37)	(10)	102
Free Cash Flow	(6)	(85)	(7)	101
Cash at Begin of Yr	72	94	57	47
Cash at End of Yr	94	57	47	149
NPV (\$M)	NPV5%		\$/sh	
Juanicipio (44%)	806		8.18	
Deer Trail	15.0		0.15	
Total Mining Assets	821		8.34	
Cash & Short-Term Investments	40		0.40	
Corporate Costs/G&A	(31)		(0.31)	
Other Corporate Adjustments	16		0.16	
Total NPV	846		8.59	
Price Assumptions	2020	2021	2022E	2023E
CAD:USD	0.74	0.80	0.77	0.76
Gold (\$/oz)	1,771	1,798	1,825	1,750
Silver (\$/oz)	20.51	25.13	22.97	23.00
Lead (US\$/lb)	0.83	1.00	1.02	1.32
Zinc (US\$/lb)	1.03	1.36	1.72	1.65
Operating Summary	2020	2021	2022E	2023E
Total Silver Production (koz)	0.3	1.4	4.2	8.7
Total Cash Costs (US\$/oz)	N/A	N/A	\$5.38	\$3.42
All-In-Sustaining Costs (US\$/oz)	N/A	N/A	\$9.53	\$11.04
Sustaining Capex (\$M)	\$0	\$0	\$8	\$50
Development Capex (\$M)	\$51	\$107	\$54	\$0

Source: Company reports, FactSet, and CIBC World Markets Inc.

Company Profile

MAG Silver is an emerging silver producer, with a 44% interest in the high-grade Juanicipio mine in the historic Fresnillo district in Mexico.

Investment Thesis

MAG Silver is an emerging silver producer in a position to benefit from the rising tide in silver prices. A key catalyst is the upcoming completion and commissioning of the 4000tpd Juanicipio mill, which MAG Silver is constructing with its joint venture partner Fresnillo (as operator), bringing MAG Silver to producer status. Longer term, we see robust upside potential for the asset, which includes both the possibility of a plant expansion and additional resources.

Price Target (Base Case): C\$27.00

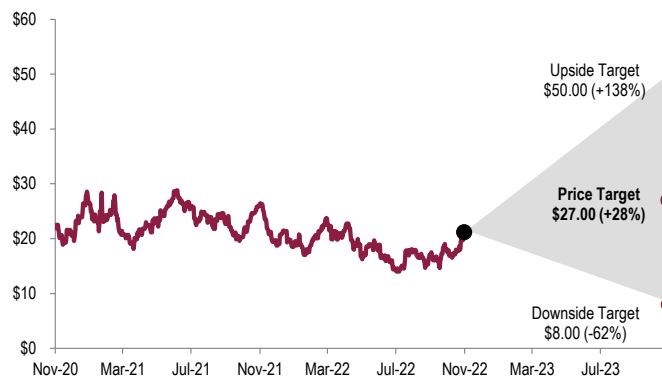
Our price target is based on the CIBC price deck, which features a \$26.50/oz silver price in 2022, \$23/oz in 2023, and \$20/oz longer-term.

Upside Scenario: C\$50.00

Our upside scenario is based on a \$50/oz silver price.

Downside Scenario: C\$8.00

Our downside scenario is based on a \$12.50/oz silver price and reduced multiples.



Environmental, Social and Governance (ESG) Metrics for MAG-TSX

CIBC ESG Metrics

Governance Metrics	2017	2018	2019	2020	2021
Insider Ownership	13.5%	16.4%	12.9%	11.5%	11%
Board Gender Diversity	13%	13%	13%	29%	38%
Separation of Chair & CEO	YES	YES	YES	YES	YES
Dual-class Ownership?	NO	NO	NO	NO	NO
Disclose ESG Data?	NO	NO	NO	NO	NO
Social Metrics	2017	2018	2019	2020	2021
CEO Comp./Mkt Cap*	\$1.6	\$2.7	\$2.1	\$1.0	\$0.8
Diversity Targets	NO	NO	YES	YES	YES
Women Managers	NA	NA	12%	20%	20%
Environmental Metrics	2017	2018	2019	2020	2021
Emissions Intensity**	NA	NA	NA	NA	NA
Net-zero Targets?	NO	NO	NO	NO	NO

*CEO Compensation is shown as per thousand dollars of market capitalization

**Emissions Intensity calculated as total emitted CO₂e divided by million \$ of CAD revenue

Sustainalytics ESG Risk Rating

33.5 -12.4 High Risk

Updated on
Oct 30, 2022

Momentum



Sustainalytics ESG Risk Rating Ranking

UNIVERSE	RANK (1 st = lowest risk)	PERCENTILE (1 st = lowest risk)
Global Universe	11059/14707	75th
Precious Metals INDUSTRY	43/118	37th
Precious Metals Mining SUBINDUSTRY	12/29	40th

Sustainalytics Material ESG Issues

These are the Material ESG Issues driving the ESG Risk Report

Issue Name	ESG Risk Exposure Score Category	ESG Risk Management Score Category	ESG Risk Rating Score Category	Contribution to ESG Risk Rating
Corporate Governance	9.0 High	59.6 Strong	3.6 Low	10.8%
Human Capital	5.0 Medium	38.9 Average	3.2 Low	9.4%
Land Use and Biodiversity	2.8 Low	45.9 Average	1.5 Negligible	4.6%
Occupational Health and Safety	8.6 High	59.2 Strong	4.0 Low	11.9%
Resource Use	9.2 High	43.7 Average	6.0 Medium	17.9%
Bribery and Corruption	7.2 Medium	83.8 Strong	1.5 Negligible	4.4%
Business Ethics	3.0 Low	95.0 Strong	0.3 Negligible	0.9%
Community Relations	9.0 High	83.9 Strong	2.2 Low	6.6%
Emissions, Effluents and Waste	8.6 High	28.4 Average	6.4 High	19.0%
Carbon -Own Operations	6.0 Medium	23.8 Weak	4.9 Medium	14.5%
Overall	68.4 High	56.3 Strong	33.5 High	100%

CIBC Quantitative Scorecard

Within Sector			Within S&P/TSX Comp.		
Style	Rank	Delta	Style	Rank	Delta
Value	75	-4	Value	208	+200
Momentum	28	+10	Momentum	85	+175
Quality	71	0	Quality	201	+195
Market	56	-1	Market	141	+145
Low Volatility	73	-2	Low Volatility	205	+201
Growth	10	+4	Growth	31	+35

Note: Ranking out of 101 stocks

Note: Ranking out of 234 stocks

General Notes Behind the Quantitative Scorecard

Delta refers to the change in the ranking over the past month. Number of stocks "Within Sector" is defined by the number within the GICS. In the "Within S&P/TSX" category, we use all stocks in the S&P/TSX Composite. For detail on the Quant Factors included in each style above, please contact the CIBC Portfolio Strategy Team.

The table above is based upon quantitative, statistical, and mathematical analysis and is not intended to serve as a fundamental recommendation.

CIBC Technical Scorecard

Factor	TSM Score	Factor	TSM Score
TSM	6	Momentum	B
Beta	1.19	MACD	A
Volatility	↔	Alpha (Sector)	A
Trend	↗	Alpha (Index)	B
RSI	Neutral		

General Notes Behind the Technical Scorecard

TSM: The Trendspotting Matrix uses technical factors to score uptrend durability.

Momentum and alpha metrics compare performance over one-month, one-quarter and one-year timeframes, outputting a rating from A to D.

Trend/Volatility metrics measure price deviations relative to underlying moving averages.

RSI is an oscillator that provides mean-reversion estimations.

MACD is a momentum indicator rated from A to D based off the strength of its signal.

The table above is based upon a technical methodology that examines the past trading patterns and trades and is not intended to serve as a fundamental recommendation.

Source: Sustainalytics, Compustat, FactSet, Bloomberg and CIBC World Markets Inc.

Price Target Calculation

Our C\$27.00 price target is derived from a 1.4x multiple on the company's net asset value (NAV) and a 23x multiple on the average of our H2/22-2023E JV CFPS estimate, at CIBC's price deck and a 5% discount rate. The P/NAV multiple of 1.4x is above the peer group average, but consistent with where MAG Silver shares have traded over the last year. The CFPS multiple of 23x is also above the peer group.

Key Risks To Price Target

Our price target is based on mine operations continuing without interruptions.

Mining is an inherently risky business, where technical, political and human issues can influence operations.

We consider the following as risks to our derived price target:

Commodity Prices: All mining companies are affected to varying degrees by changes in commodity prices. Rising or falling commodity prices have a direct impact on earnings, cash flow, and NAV. Commodity prices also impact operating, capital spending, and exploration decisions, which may have longer-term impacts.

Operational Risk: Operating issues are inherent to all mining activities. Inclement weather conditions, as an example, can impact operations, leading to production shortfalls, cost increases, and/or resource reductions (temporary or permanent). The impact on our estimates would depend on the nature, as well as the severity, of the operating issue.

Development Risk: During a project's development phase, certain events can lead to unforeseen delays or cost overruns, which could drastically change the economics of a project.

Permitting Risk: Permits are essential for all development projects and mining operations. Delays in obtaining or refusal of critical permits can have significant ramifications on the valuation of a project or operation.

Political/Country Risk: Every country poses unique risks. Governments can change mining and/or environmental laws and can implement tax or royalty changes, which could potentially hurt company earnings, cash flow, and NAV. There is also the risk of asset expropriation or nationalization without compensation, and changing political regimes that can alter the attitude towards mining activities. Most recently, there has been some investment community concern over a specific mining taxation dispute between another Canadian mining company and the Mexican government. The dispute is highly company-specific, stemming from the tax treatment of a streaming agreement at the San Dimas mine. We see no risk to other companies, including MAG Silver, at this time. In fact, Mexican President AMLO (Andrés Manuel López Obrador) has made recent public statements ruling out mining tax hikes.

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Outperformer	OP	Stock is expected to outperform similar stocks in the coverage universe during the next 12-18 months.
Neutral	NT	Stock is expected to perform in line with similar stocks in the coverage universe during the next 12-18 months.
Underperformer	UN	Stock is expected to underperform similar stocks in the coverage universe during the next 12-18 months.
Tender	TR	Shareholders are advised to tender shares to a specific offer as we do not believe a superior offer will materialize.
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Overweight	O	Sector is expected to outperform the broader market averages.
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None	NA	Sector rating is not applicable.

Note: Broader market averages refer to S&P 500 in the U.S. and S&P/TSX Composite in Canada.

CIBC World Markets Inc. Price Chart

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Tender	3	1%	Tender	3	100%
Restricted	10	3%	Restricted	10	100%

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