

Mossberg's Investor Digest

Best Idea Profile:

Hecla Mining Co. (NYSE:HL)

DESCRIPTION:

Headquartered in Coeur d'Alene, Idaho; Hecla Mining Company is the largest primary silver producer in the U.S. The Company also produces other precious and other metals including gold, lead and zinc. Hecla sells lead, zinc and bulk concentrates to custom smelters and unrefined gold and silver bullion bars, which may be sold or further refined before being used by precious metals traders. The Company has North American operations which include businesses in Canada, Mexico and the US states of Alaska, Colorado and Idaho.

KEY INVESTMENT CONSIDERATIONS:

Diversified Silver Mining Play – Hecla Mining is primary a Silver play. Yet the company has substantial diversification in its revenue base. Hecla reported that FY2011 revenues that were 54% Silver, 13% Gold, 13% Lead and 20% Zinc.

Silver Demand – Industrial demand for Silver increased from 274 mm ounces in 1990 to 487 mm ounces in 2010 (source: GFMS mining reports). That is an increase of 78%, and annualized increases of 3.5% for Hecla's lead product. Silver has the highest electrical conductivity of all metals and superior thermal conductivity. The US and Japan will continue to be large consumers of silver while China and India are estimated to experience technology driven demand in silver consumption of 9% per annum (GFMS mining).

Economic Instability – Investment demand has driven silver prices higher as investors look for alternative investments that include both physical silver and exch. traded silver funds. From '90 to '10 demand for silver for coins and medals increased 197%. As governments continue to weaken their currencies with increased money creation the investment demand for silver as a store of wealth will continue to increase.

Experience in Exploration – Hecla is an experienced operator with a strong history of delivering new reserves. The Company increased silver reserves 189% from 2006 to 2011.

Turnaround – In Jan2012, the U.S. Mine Safety and Health Administration ordered the Silver Shaft at the Lucky Friday Mine closed for shaft material removal for up-to a year. Hecla has changed estimates for silver production for 2012 from more than 9 million ounces to about 7 million ounces. HL estimates that Luck Friday will come back into production in 2013.

Growth in Production – Hecla expects 2012 production of 7 million ounces. The Company is expecting silver production to grow 50% from 2013 to 2017.

Low Cash Cost – Hecla has the lowest cash cost of silver production in US. In FY2011 the Company had a cash cost of \$1.15 per ounce.

Silver Linked Dividend – On Feb. 21, 2012 Hecla's Board of Directors declared a quarterly silver-linked dividend of \$0.01 per share of common stock along with a minimum annual dividend of \$0.01 per share of common stock.

Financial Strength – Hecla has \$266 MM in cash and no debt. The Company settled its long running Coeur d'Alene Basin litigation in FY2011 removing a potentially large liability from the Company's balance sheet.

VALUATION:

Hecla is trading at just above book value Investor sentiment is near a low due to the recent mine closure announcement. However, as issues are resolved, the multiple should return to its historic average of approx. 2x, which implies significant upside from current levels.

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Investment Data (as of 4/26/12)

Recent Price	\$4.15
52-Week Range	\$4.03 - \$9.65
Fiscal Year End	Dec
Dividend	\$0.08
Yield	1.9%
Shares Outstanding	285MM
Average Trading Volume (3 months)	6MM
Market Capitalization	\$1.17B
Cash	\$266MM
Long Term Debt	NA
Enterprise Value (EV)	\$904MM
Book Value	\$4.00
TTM Revenue	\$478MM
P/ Revenue	2.5x
TTM EPS	\$0.51
P/ EPS	8x
TTM EBITDA	\$293MM
EV/ EBITDA	3.1x

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