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August 23, 2023

Portfolio Recon Report: JOY, TDW, and AFM

A biweekly discussion on what's happening with our portfolio companies …

In this week's update, we discuss the latest earnings reports from:

- **Journey Energy (JOY)**
- **Alphamin Resources (AFM)**
- **Tidewater (TDW)**

Let's get after it.

Journey Energy (JOY)

Journey Energy (JOY) is our low-decline, bet-on-the-jockey Canadian oil producer. The company reported earnings on August 8. You can read the earnings report here, along with our most recent Equity Note.

The company generated CAD 29M in Adjusted Funds Flows (AFF) during the 6M 2023 compared to CAD 54M in the prior year. JOY generated CAD 11.3M in AFF during Q2 versus CAD 33.3M for the previous period.

	Three months ended June 30,			Six months ended June 30,		
	2023	2022	% Change	**2023**	2022	% Change
Cash flow provided by operating activities	**12,335**	26,044	(53)	**23,796**	47,855	(50)
Add (deduct):						
Changes in non-cash working capital	**(1,845)**	7,014	(126)	**2,435**	4,694	(48)
Transaction costs	**-**	136	(100)	**2**	144	(99)
Decommissioning costs	**802**	187	329	**3,018**	1,089	177
Adjusted Funds Flow	**11,292**	33,381	(66)	**29,251**	53,782	(46)

Besides the commodity price headwind (5%+), operating expenses increased by 15% due to energy cost inflation. JOY also spent ~CAD 12M on its Mazeppa power plant assets, the benefits of which won't appear in this quarter's report.

There were positives during the quarter. JOY reduced its net debt by 24% from December 2022 by paying down its term loan and vendor take-back agreement. The company also maintained steady sales volumes, with production declining only 4% QoQ.

	June 30, 2023	June 30, 2022	% Change	June 30, 2023	Dec. 31, 2022	% Change
Term debt[1]	**43,763**	67,580	(35)	**43,763**	67,580	(35)
Vendor-take-back debt[1]	**31,000**	-	-	**31,000**	43,000	(28)
Accounts payable and accrued liabilities	**42,670**	31,057	37	**42,670**	45,496	(6)
Other liability - contingent bank debt[1]	**-**	5,000	(100)	**-**	5,000	(100)
Other loans	**419**	410	2	**419**	419	-
Deduct:						
Cash in bank	**(9,789)**	(43,610)	(78)	**(9,789)**	(31,400)	(69)
Accounts receivable	**(28,512)**	(27,199)	5	**(28,512)**	(29,677)	(4)
Prepaid expenses	**(4,889)**	(3,562)	37	**(4,889)**	(1,650)	196
Net debt	**74,662**	29,676	152	**74,662**	98,768	(24)

JOY has massive leverage to higher oil prices. The higher the oil price, the more production CEO Alex Verge "turns on." Oil has traded over $80/bbl since quarter-end, which should boost JOY's Q3 earnings and cash flows.

But we can't discuss JOY without mentioning its power generation assets. My friend, Josh Young of Bison Interests, wrote a great piece dissecting JOY's power gen value proposition (read it here).

The short version is that Razor Energy sold a similar power generation business to AIMICo for $5.4M per MW generated.

The Futera transaction implies significant upside for Journey Energy's nearby, rapidly growing power business. FutEra has 21MW of nameplate installed power generation capacity at its Swan Hills facility, but we estimate the true effective capacity is closer to 17MW, based on disclosures and comments from Razor and Futura management. This implies a value of $5.4/MW for this transaction:

Power Generation Value Implied by FutEra Transaction		
Current Power Generation Capacity, in MW		17.0
Implied FutEra Valuation, in $MM	$	92.4
Implied Value per MW, in $MM	**$**	**5.4**

Let's do some quick math on JOY's power generation production potential:

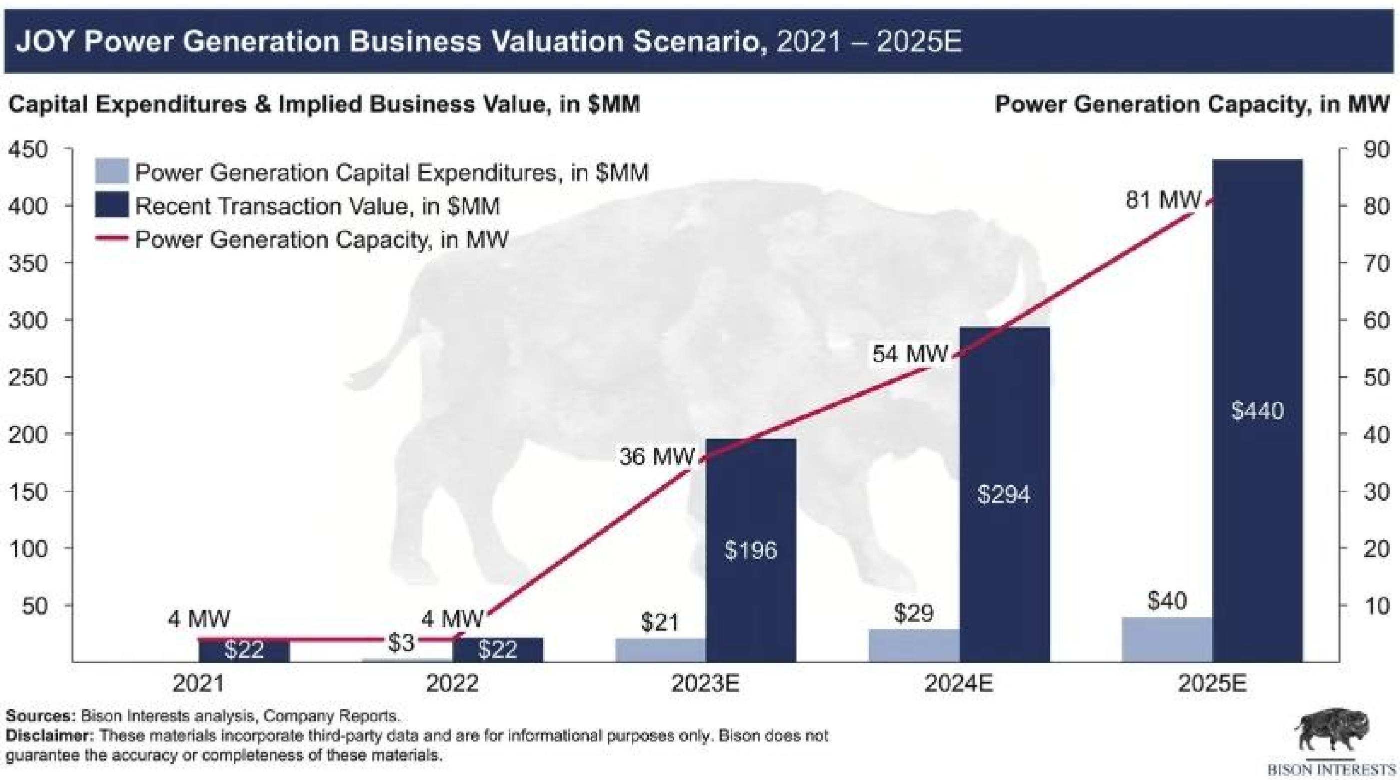
- ➢ Countess: 4.0 MW
- ➢ Gilby: 15.5 MW
- ➢ Mazeppa: 16.5 MW
- ➢ **Total:** 36 MW

<u>That's $194M in asset value,</u> assuming JOY gets $5.4M per MW like Razor Energy. The company has a $252M market cap (CAD 337M).

Here's another way to think about it. We're paying ~1.3x asset value for the power generation business and getting JOY's low-decline, cash-flowing production business for free.

Josh is more bullish on JOY's power generation assets than I am. I'm uncomfortable predicting how many MW the company will generate three years from now. But Josh thinks JOY can reach 81 MW by 2025.

That would give JOY's power gen assets a $440M valuation or nearly twice the current market cap.



What's the market missing to provide us this opportunity? I think it's two things.

One, investors are scared of JOY's optically high debt load. They see a leveraged balance sheet on a small-cap oil and gas producer during a sideways-to-down oil price environment.

The company hasn't yet monetized its power gen business but *has* incurred elevated Alberta electricity/power costs. This reduces operating profits and distorts the company's potential earnings power over the next 12-18 months.

The other reason power generation is so important is because it changes how investors view/value the company. Power generation is a utility business. Utilities have predictable cash flow streams, unlike oil and gas production.

And investors *love* predictability. That means they'll have no problem assigning an 8-12x multiple on JOY's power generation cash flows. The greater the percentage of revenue and power generation profits, the higher the company's multiple.

Fast forward two years, and there's a real chance investors value JOY more like a utility than a cyclical small-cap E&P.

Let's look at the technicals.

The stock has gone nowhere over the past 18 months as it digests the move from $1 to $7/share.

Respecting risk is the most critical factor at MO. We'll exit our position if the stock breaks below this triangle.

That said, I'd add on a bullish reversal at the bottom of the range.

I love this setup. It's a 4%+ notional position in the fund that I want to get up to 7-10% on confirming bullish price action.

The downside is roughly its current market cap thanks to the company's power generation business. You then get the low-decline production assets with tremendous torque on commodity prices **for free** in a rising oil price environment.

Alphamin Resources (AFM)

AFM is the world's leading pure-play tin miner, producing 4% of global supply. The company has the world's lowest-cost and highest-grade tin mines. You can read our prior research on AFM here.

The company reported Q2 2023 earnings last week (click here for the full report).

Here are the highlights:

- ➢ 3,151 tons of production
- ➢ $35.4M in EBITDA
- ➢ Average tin price of $25,587
- ➢ Mpama South is progressing well and will increase production by 60%

Description	Units			
Description	**Units**	**Quarter ended June 2023**	**Quarter ended March 2023**	**Change**
Ore Processed	Tonnes	99,035	95,751	3%
Tin Grade Processed	% Sn	4.21	4.38	-4%
Overall Plant Recovery	%	76	76	0%
Contained Tin Produced	Tonnes	3,151	3,187	-1%
Contained Tin Sold	Tonnes	3,068	3,161	-3%
EBITDA[2]	US$'000	35,400	41,391	-14%
AISC[2]	US$/t sold	13,987	13,915	1%
Average Tin Price Achieved	US$/t	25,587	26,432	-3%

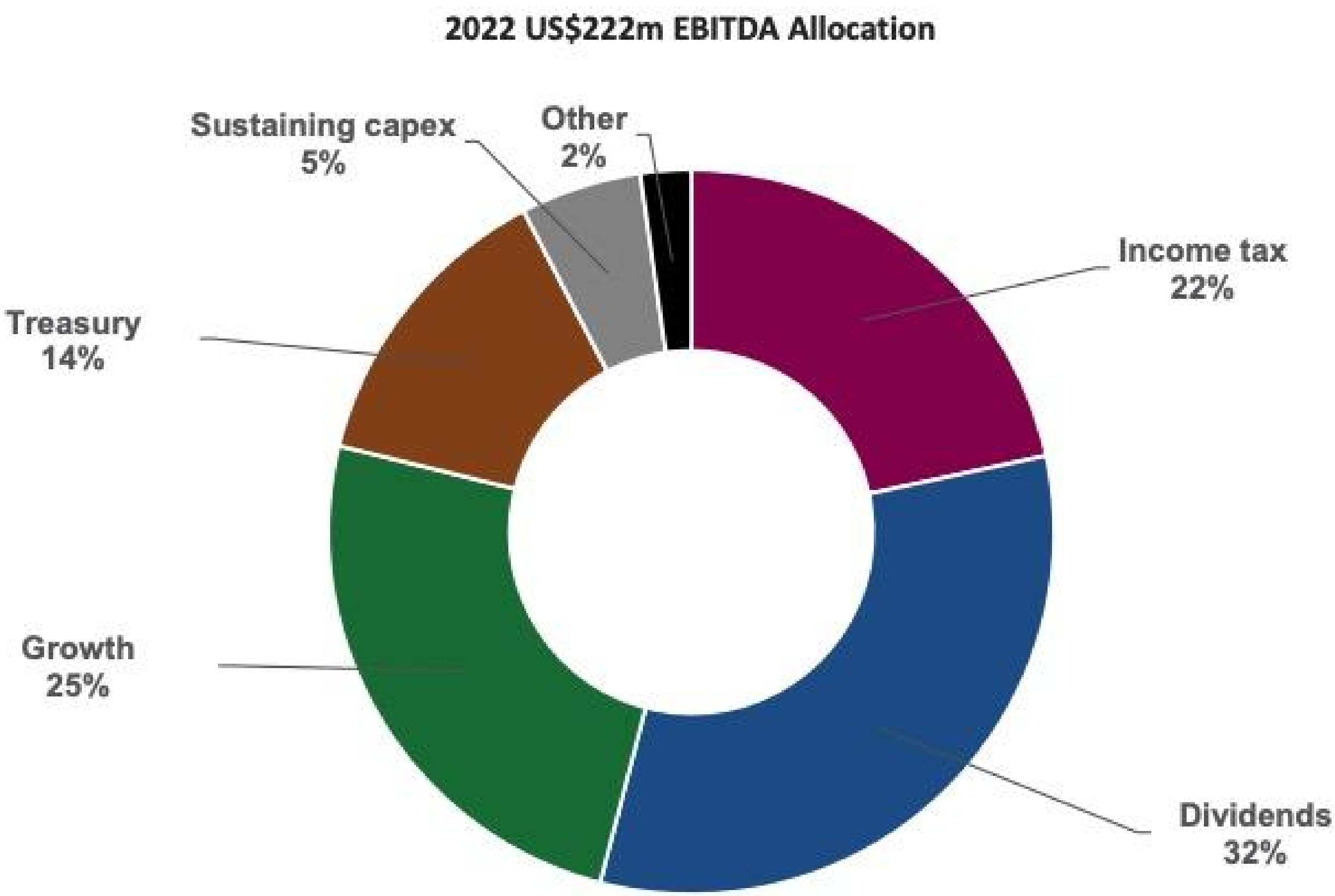
AFM isn't immune to the recessionary fears from China, Europe, etc. And the stock sold off after earnings as tin prices declined.

The good news is that AFM has one of the lowest-cost operations globally. Let's assume tin trades around $25k/ton for the next two years (its historical average) and $14K/ton in AISCs.

In that scenario, AFM would generate $11k/ton in EBITDA. The company currently produces ~12.6K tons annually. However, Mpama South will come online later this year. That increases production by 60%, giving us 20.1k tons annually.

So by 2024-2025, AFM could generate $220M in EBITDA at $25K/ton tin prices.

And with Mpama South completed, the company can shift 25% of its capital allocation from growth capex to dividends/buybacks (see below from their June 2023 roadshow).



The Inflation Reduction Act (or IRA) only accelerates demand for tin from various end-uses like solar, electric vehicles, and IoT devices.

Our thesis remains intact, and we want to add on technical strength.

Tidewater (TDW)

TDW is our offshore support vessel company. You can read more about TDW here and our latest *Long Pull Report* on the Offshore Energy industry.

The company reported earnings last week. The earnings report itself is bland. But there are *gems* in TDW's conference call.

CEO Quintin Kneen explained the strength in day rates during the quarter (emphasis added):

> *"The most important indicator of strength in our business, average day rate, continued its upward momentum during the second quarter, with the average day rate up $1,400 per day sequentially, nearly a 10% movement.*
>
> ***The average day rate is now up approximately $5,500 per day since the recovery began around the end of 2021.*** *Every region and every vessel class experienced a modest to quite significant day rate increase during the second quarter, except our 8,000 to 16,000 BHP-class anchor handlers, which were essentially flat sequentially."*

More importantly, leading-edge day rates keep ticking higher.

> *"The average day rate for contracts associated with the subset of vessels was right at $23,500 per day with an average duration of about 6.5 months.*
>
> *This compares to a leading-edge day rate of approximately $21,000 per day with an average duration of 7.5 months in the first quarter.* ***An 11% increase in leading-edge day rates is meaningful.***
>
> *Further,* ***the leading-edge composite average day rate of $23,500 is 46% above the average day rate for the second quarter.*** *And this growth potential continues to be a driving factor for our confidence in the revenue and gross margin guidance for the year and our optimistic outlook for 2024."*

Higher day rates directly correlate to higher profits. So as day rates approach newbuild economics, TDW's fleet NAV increase and generates substantially more FCF along the way.

Quintin then explained that the OSV market is so tight that he'd rather have 100% of his order book on short-term spot market contracts versus long-term contracts (emphasis added):

> *"**No incremental supply of any magnitude is coming in from anywhere**, and activity levels continue to increase. So generally, I'm still going short.*
>
> *Now we've been going short for so long that we're actually depleting a lot of our coverage. We may add some longer-term contracts to balance out the book.*
>
> *So -- because there's always a meaningful piece of long-term contracts. If you can get the right terms, get the right price escalations.* ***But if I had my [way], I'd just jam it on the spot market."***

Bob Robotti, an "Old Economy" value investing legend, bought another $7M worth of TDW stock after earnings.

Instruction 10.

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934 or
Section 30(h) of the Investment Company Act of 1940

1. Name and Address of Reporting Person *	2. Issuer Name **and** Ticker or Trading Symbol	5. Relationship of Reporting Person(s) to Issuer (Check all applicable)
ROBOTTI ROBERT (Last) (First) (Middle)	**TIDEWATER INC [TDW]**	_X_ Director ____ 10% Owner ____ Officer (give title below) ____ Other (specify below)
125 PARK AVENUE, SUITE 1607 (Street)	3. Date of Earliest Transaction (MM/DD/YYYY) **7/31/2023**	
NEW YORK, NY 10017 (City) (State) (Zip)	4. If Amendment, Date Original Filed (MM/DD/YYYY)	6. Individual or Joint/Group Filing (Check Applicable Line) _X_ Form filed by One Reporting Person ___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Trans. Date	2A. Deemed Execution Date, if any	3. Trans. Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock, $0.001 Par Value Per Share	**7/31/2023**		**P**		**117,698** (1)	**A**	**$62.28**	**3,185,971** (2)	**I**	**See Footnote** (3)

Bob was among the first to spot the OSV/TDW opportunity, and he's averaged up the whole way.

TDW is a significant position for us at ~9% notional. We're up a cumulative 5R on our combined position and have moved stops below 08/08 lows on half the position to protect profits.

We maintain our $100-$150/share price target indicating an additional 100% upside from the current share price (~$61).

