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The Long Pull Report: Hungry For Copper

A weekly discussion on the major investment thematics we're tracking….

In this week's update, we discuss:

- **Glencore's (GLEN) latest copper project acquisition**
- **A new "No price too high" M&A environment in copper**
- **Recent global copper production declines**
- **Opportunity Cost of Greenfield vs. Brownfield Expansion**
- **Why Foran Mining (FOM) is worth at *least* 4x its current price**

Let's get after it.

GLEN is hungry for copper assets as the company shifts from a predominantly iron ore/coal-based business to a copper-heavy producer.

Earlier this week, Glencore bought Pan American Silver's (PAAS) 56% stake in the MARA Copper Deposit for $476M. This isn't a massive investment for GLEN. They're a $57B business, and $850M is a rounding error.

Here's why this is interesting.

The company paid nearly one billion dollars for a 0.39% grade copper deposit. That's less than the current average grade of ~0.50%.

There are good things about the MARA asset. It has low cash costs, proven and probable mineral reserves of 5.4 million tonnes of copper, and a ~27-year open pit mine life.

This acquisition is the blueprint for GLEN's copper strategy and for every major mining company.

The strategy is simple: We will need more copper to meet future demand, so there is no price too high to secure supply today.

Paul from the *Sirius Report* joined "The Northern Miner Podcast" last month to discuss copper's supply/demand issue.

The TL;DR is that even if you take Net Zero 2050 targets with two heaping pinches of salt, we still won't have enough copper for the next decade (emphasis added):

*The global South is not just developing Green Energy for the sake of Net Zero 2050. They're doing this because **it's sensible to have a mix** and rely less on fossil fuels going forward …*

*So the question is, what does that mean in terms of copper shortages if that happens? Well, suddenly, it becomes a significant reality. **This is why big players want to buy copper resources like BHP, Rio Tinto, etc**...*

*They're showing an interest in it now. But then the question is how's this financed, and it requires a huge amount of investment, and **some copper deposits would not be economically viable to take out the ground at current prices.***

*So the demand needs to be satisfied. But **to get these deposits, the actual capex and opex costs are much higher than [the current] price."***

Copper miners have two choices to increase their production. They can spend two decades and billions of dollars growing organically through underground, low-grade mining. Or, they buy copper explorers already doing all the heavy lifting for them.

Rationally, they're choosing the second option.

This means we're entering a "No price is too high" M&A environment backed by three structural industry dynamics.

One, **all the easy copper has been mined already**. What's left is low-grade (<0.50% on average) and requires expensive and complex underground mining processes.

Two, **capital costs are at all-time highs.** Nobody wants to lend to mining companies, and the ones that do, lend at 10-15%+. The world's largest banks are closing their energy/mining divisions to capture higher ESG scores.

And three, **cost inflation makes greenfield expansion more expensive** (i.e., less attractive) than buying a junior explore-co that's already done the Pre-Feasibility work and drilled a few investigative holes.

These three dynamics will **intensify over time**. Grades will decline even further, capital costs will increase, and there's no sign of cost deflation in labor, energy, or equipment.[1]

Look at the most recent Q2 earnings reports from the world's largest copper miners.

GLEN's Q2 copper production declined by 4%, and FY 2023 expectations are below FY 2022 results (see below).

[1] Rio Tinto & BHP are spending billions just to maintain current production, let alone grow organically.

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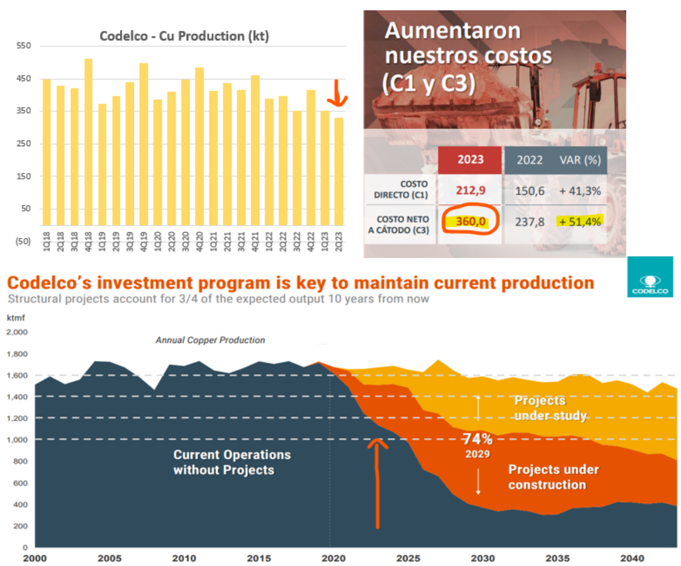
Production from own sources – Total[1]

		H1 2023	H1 2022	Change %
Copper	kt	488.0	510.2	(4)
Cobalt	kt	21.7	20.7	5
Zinc	kt	434.7	480.7	(10)
Lead	kt	87.4	95.1	(8)
Nickel	kt	46.4	57.8	(20)
Gold	koz	369	334	10
Silver	koz	9,446	12,579	(25)
Ferrochrome	kt	717	786	(9)
Coal	mt	54.2	55.4	(2)

1. Controlled industrial assets and joint ventures only (excludes Volcan). Production is on a 100% basis, except as stated later in this report.

Codelco saw its third consecutive quarterly copper production decline *on top of* a 51% increase in Cash Costs (see below).



Teck Resources (TECK) [cut production targets] at its flagship Quebrada Blanca 2 mine from 150-180,000 to 80-100,000 tons.

The new reality of copper production growth creates a higher floor for "brownfield" copper acquisitions than most market participants realize.

I read a Tegus call with a former Lundin Mining (LUN.TSX) Managing Director this week that confirmed this belief (emphasis added):

> *"As time has evolved, the **grades have slowly declined,** particularly copper. And then I think Zinkgruvan [one of LUN's mature copper mines] is in a similar situation, **just getting deeper**.*

Of course, it's tough to grow those mines organically. ***You find yourself constantly trying to maintain what you've produced recently.****"*

The former MD then uses LUN's Neves-Corvo mine as an example of this "running in quicksand" feeling most mature miners feel (emphasis mine):

"Take Neves-Corvo. It was a 150,000 ton/year copper producer mining about 10% grade in its early days. That's slowly but steadily declined since then. And as you go deeper, ***it just gets tougher to sustain what you did previously.*** *So it depends* ***where they are****, the* ***maturity of the asset****,* ***how deep they are****, and where the mineralization is."*

Mature mines are like low-interest rate debt approaching maturity in a high-interest rate environment. The majors have enjoyed "low interest" (i.e., high-grade and low-cost) mine projects for decades. Now, the party's over.

But not just single-mine risk and uncertainty threaten production costs and project returns. We're entering The Fourth Turning, where global powers shift, supply chains reorganize, and input costs explode.

Russell Napier wrote a great piece on this topic two weeks ago in his newsletter, *The Solid Ground*.

The big idea is that China will no longer subsidize the world with cost deflation from:

- **Artificially depressed interest rates**
- **Active exchange rate management**
- **Low inflation**

Here's Russell's pitch (emphasis added):

"In the new monetary system, which China is increasingly isolated from trade flows and capital flows, ***inflation will be higher, and the rest of the world's interest rates will begin to move higher****. The world is not yet ready to move towards two trading blocks, but investment continues at breakneck speed to prepare for that day …*

The Solid Ground believes that a new two-block monetary system will lead to ***higher inflation, higher interest rates*** *and a* ***move to developed world financial repression.****"*

The idea that the rest of the world ex-China will magically produce enough low-cost copper to sustain current demand, let alone anywhere close to Net Zero 2050 goals, is preposterous. The more probable reality is that the world gets much more expensive,

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and the materials needed to run the world (energy, metals, etc.) inflate higher for longer to compensate for the higher input costs.

In other words, all the signs point to a **massive wave of copper M&A.**

Luckily, we're positioned for that environment in the fund with Foran Mining (FOM), our Saskatchewan copper exploration company.

FOM is a high-quality copper asset with everything a mid-tier or major-tier producer wants:

➢ **High-grade deposits**
➢ **Excellent local infrastructure**
➢ **Mining-friendly jurisdiction**
➢ **Run by a former GLEN head metals trader**

The stock is one of our biggest winners in the fund and nearly a double from our initial purchase price of ~CAD 2.50.

There's been a lot of positive news around the company in the past few weeks. For example, last week, the company gained approval under The Environmental Assessment Act (Saskatchewan) for its McIlvenna Bay Project in Saskatchewan.

The company uplisted to the TSX on June 7. Then a week later announced a collaboration with the Peter Ballantyne Cree Nation.

And despite copper's price weakness, FOM's chart remains in an uptrending Bull Quiet Regime.

A Trifecta Setup.

With this GLEN acquisition of MARA, what's the new floor price for FOM's assets?

Let's do some rough napkin math.

GLEN's $475M acquisition values MARA at $850M. The mine has ~5.4 Mt of probable copper mineral reserves (or 10.8Blbs) for a purchase price of **~$0.08/lb of copper reserves.**

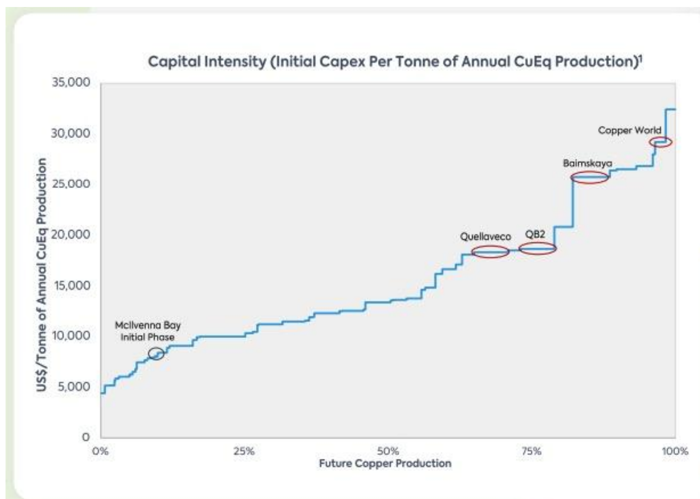
As of February 2022, FOM has 25.7Mt (or 51.4Blbs) in copper reserves grading 1.23%. **FOM's copper reserves are worth~ $4.12B,** assuming an average price of ~$0.08/lb.

That's nearly 4x the current market cap of CAD 1.1B. But FOM should command a higher price than MARA.

FOM's McIlvena Bay project has some of the lowest C1 Cash Costs globally at around $0.26/lb and $0.90/lb in All-In Sustaining Costs (or AISCs).

For comparison, MARA has [$1.46/lb AISCs.]

The final reason FOM will sell for more than MARA is the company's shareholder base and management team.



As mentioned earlier, CEO Dan Meyerson is a former Glencore zinc trader. There's a familiarity with GLEN, making a potential deal easier to land.

FOM's shareholder base includes mining titan Pierre Lassonde (who invented the Lassonde Curve), Prem Watsa's Fairfax Financial (FFH), and Sprott Resources.

These guys know the company's value at potential takeout prices, so they own over 40% of the shares.

They won't sell unless they get a fair price, which GLEN thinks is ~$0.08/lb for a low-grade deposit with decent (not great) cash costs.

If FOM gets acquired, it will be for >$0.08/lb or **~CAD 16/share (~4x the current stock price)**.

This company has a long runway left, and we'll gladly hang on for the ride.

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