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November 01, 2023

THE LONG PULL: Tungsten Intro & Portfolio Recap

If I had to distill my investment strategy into one sentence, it would be:

> ***Identify the consensus, work to understand how it's wrong, find the best expression for fading it, and then wait for the tape to confirm that there's a lot of people about to be very wrong.***

I recently had Brian Laks of Old West Capital on the podcast. We discussed capital-starved industries like uranium in 2016, energy over the past decade, and tin and copper today. Here's how he described his job (emphasis added, paraphrased):

> *"My job is to do all the work to establish a position in these names [like uranium, copper, and tin] before everyone else realizes how severe the supply/demand imbalance really is.*
>
> *What this looks like is I buy uranium in 2016 and hold. I've already done the work. I let the market do the rest. But while I'm 'waiting', I'm already onto the next industry to repeat the process all over again."*

That is our job. It's also why I'm excited to share our next Industry Primer … **Tungsten.**

Tungsten is the hardest metal in the world. It's vital in things like bullets, missiles, armor, tanks, grenades, and aerospace components and common in everyday items like mobile phones, light bulbs, car windows, and construction tools.

Tungsten checks all my boxes for what I want in an investment idea.

It's a capital-starved industry that few are paying attention to. There's no liquid futures market and only a handful of publicly traded tungsten companies. At $5B, it's too small of a market for large mining companies to care about.

All of this translates into a nonexistent domestic production market. Instead of building a domestic tungsten supply chain, the US has spent the past decade relying on China and Russia for **90%+ of its tungsten supply.**

There are obvious and increasing problems with this arrangement.

Tungsten is important for war (ammunition, missiles, grenades, aerospace components, tanks, etc.). War = more demand for tungsten.

For example, Spain's tungsten revenue ***grew by 214x*** during World War II ($73K to $15.7M).

US Demand for tungsten increased three-fold during that time. At one point, the US got so worried about tungsten supply that it created a Stockpile Program, incentivized "buying American" and routinely paid 10-20x above spot prices.

On the supply side, China and Russia are shifting towards Metallic Nationalism and export bans, crippling supply chains for critical minerals globally.

On the demand side, increased tensions in Israel, Taiwan, and Ukraine mean *more* tungsten demand as countries replenish/stockpile ammunition, tanks, missiles, fighter jets, and other war machines.

Tungsten could easily become the most severe commodity shock of the next decade. The US can't bring supply online anytime soon. Defense stockpiles only last so long before you need to refill. And few seem to care.

I'm spending the next few weeks diving deep into the Tungsten Industry. I'll share my findings in a future ***80-20 Industry Primer*** like I've done for uranium and tin.

The only difference between tungsten and our other primers is there really is nobody else talking about the industry in-depth. It's why I'm so excited about the space.

Alright, let's run through the portfolio.

Portfolio Recap: Winners Keep Winning

Our equity book hasn't changed much since the start of the year.

We hold **Vista Energy (VIST)**, **Foran Mining (FOM)**, **Tidewater (TDW)**, and **Sprott Physical Uranium (U.UN)**.

There are three reasons why we've kept roughly the same equity book all year:

- ➢ **Long-term structural tailwinds remain in place**
- ➢ **Industry-leading relative strength**
- ➢ **Still cheap/discounted**

Let's quickly review each name. This will refresh long-time Collective members's memories and help new Collective members get up to speed.

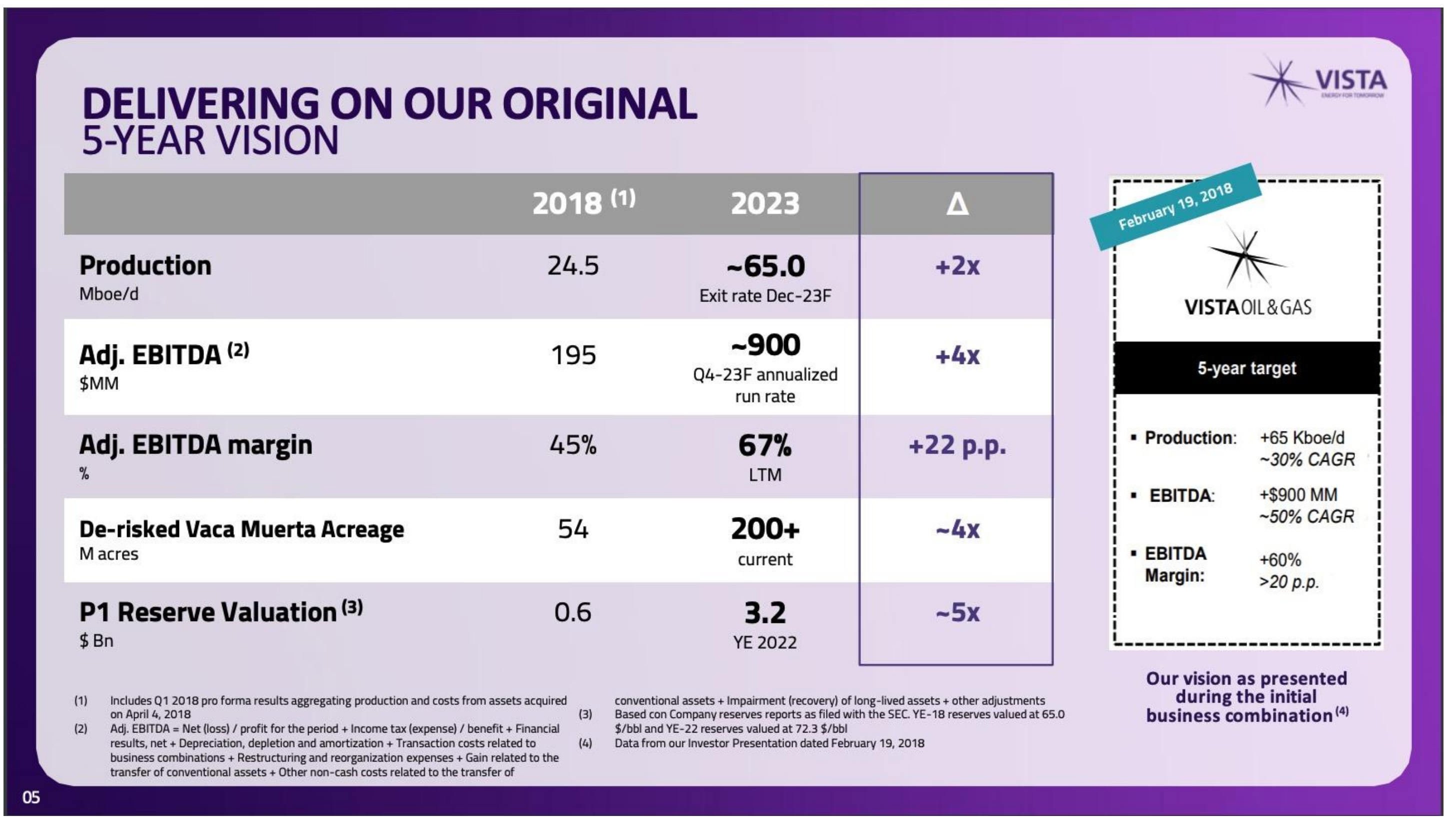
Vista Energy (VIST)

Vista Energy (VIST) is a Mexican-based oil and gas E&P operating in Argentina. The company has nearly all its assets in the Vaca Muerta shale basin in Southwest Argentina.

VIST has been one of our biggest winners in the MO Portfolio over the last 18 months. We bought our first stake in January 2022 at ~$5.77/share and have traded around a core ~7% notional position since. Today, the stock trades for $31/share, or **437% higher than our initial cost basis.**

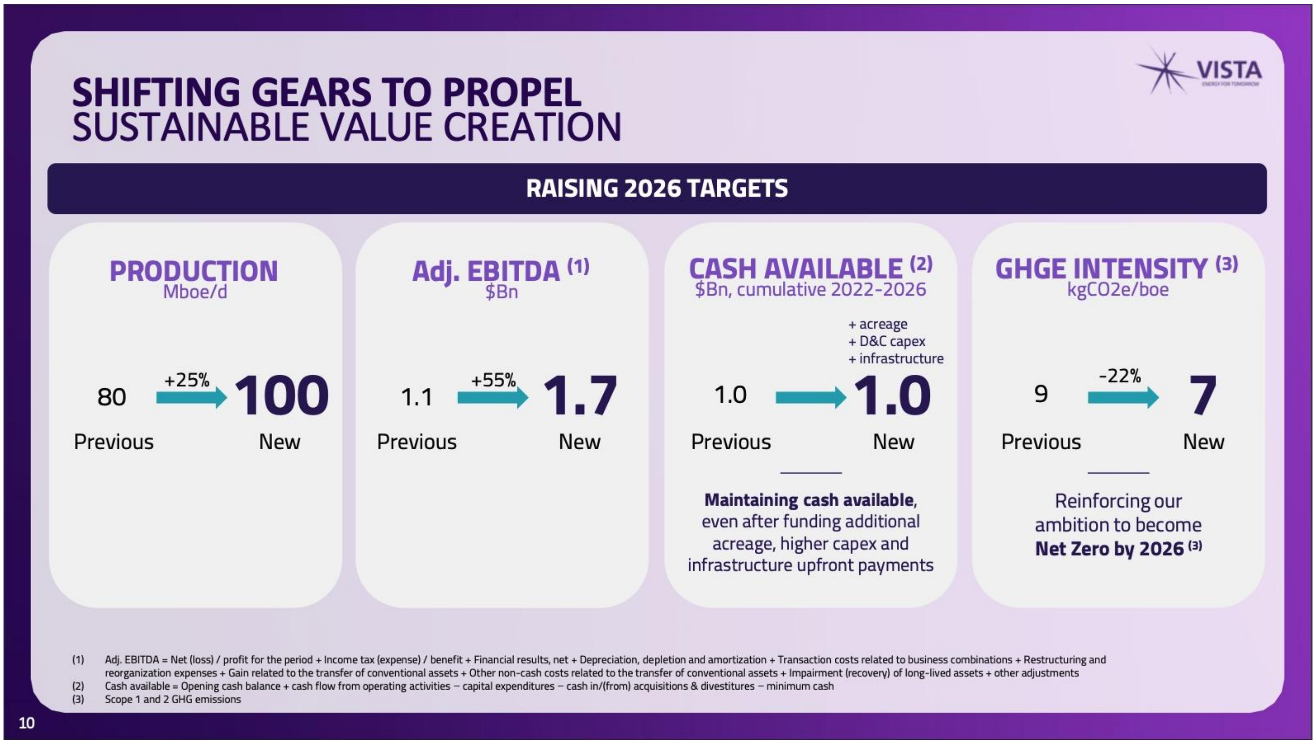
A 437% increase in share price begs the question if this stock is still cheap. Let's take a look.

The company updated its 2026 forecasts during its investor day in September. Here's the impressive part, VIST achieved all of its 2023 targets it set in 2018 (see below).



You have evidence that the company does what it says it will do. But that's in the past. What matters is what the company will do over the next 3-5 years.

Here's VIST's 2026 vision (see below).



The company raised its 2026 guidance to 100Mboe/d in production, $1.7B in Adjusted EBITDA, and $500M+ in FCF (after growth capex).

VIST has already beat its five-year target in 2018. That gives us more confidence in the management team to execute the next 3-5 year target.

More importantly, VIST uses a ***$65 average oil price*** for its revenue, EBITDA, and cash flow forecasts. We're at ~$90 oil today, or 38% higher than VIST's embedded assumption.

Let's assume oil trades at an average of ~$85 until 2026. Under this scenario, VIST's projections are ~31% discounted. In an $85 oil world, VIST would generate $2.2B in EBITDA and $655M in FCF.

VIST's fundamental value combined with its relative strength is one of the reasons why it's drastically outperformed the underlying commodity and everyone in its peer group.

The stock trades at a $2.5B market cap today. That's ~1.3x 2026E EBITDA or <5x 2026E FCF.

VIST is just as cheap today as it was when we bought it at $5.77.

Foran Mining (FOM)

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 has nearly doubled from our initial purchase price of ~CAD 2.50.

FOM has a lot going for it. The company recently announced a partnership with an Indigenous People's Group, uplisted to the TSX, and released positive drill results from its Tesla acreage.

The other interesting thing about FOM is that the stock price is approaching all-time highs while the underlying commodity price hits yearly lows (see below).

Copper prices are down ~5% YTD, while FOM is up ~48%. There are a couple of reasons for the high relative strength.

First, the stock is tightly held. Fairfax Holdings and insiders collectively own over 20% of the company. And they know what it's worth, which is much more than today's price of CAD 1.17B. Here's why.

Glencore's (GLEN) recent transaction to buy the remaining stake in MARA values FOM's copper reserves at **~$4.12B, assuming an average price of ~$0.08/lb.**

That's nearly **4x the current market cap**.

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).

We expect further sideways-to-down action in copper as the Chinese demand slowdown dominates the price narrative in the intermediate term. But we'll hold as long as FOM's fundamentals and technicals tell us to.

Tidewater (TDW)

TDW is our offshore support vessel company. They provide offshore drilling vessels to assist oil and gas E&Ps (exploration and production companies) in extracting oil from the ocean floor.

Here's why we love the setup.

Nobody has built a new OSV boat in over ten years. The entire offshore value chain has had PTSD since 2014. There are no shipyards to build ships. They all went bankrupt. And the ones that didn't, they're demanding 40-50% upfront deposits and guarantees (pre-2014, you'd get ~10% upfront deposit). Plus, the cost of building new boats is around \$60-\$70M.

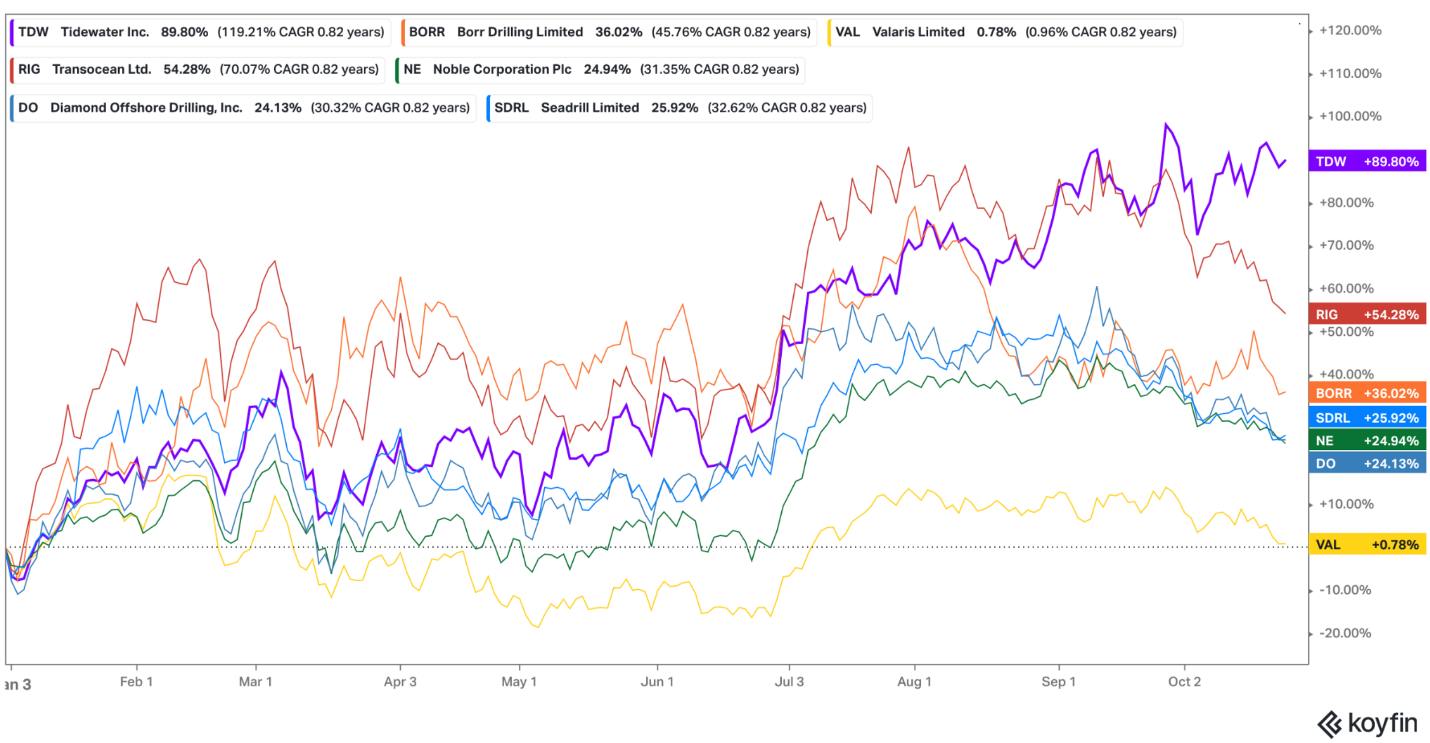
TDW makes \$600M+ in EBITDA with a 90%+ FCF conversion rate at \$18.5K day rates.

Last week, a small, Saudi-based company announced it was building a new ship. Some were quick to judge the news as "thesis destroying" and "a structural change in the supply side." It wasn't. It was one ship from a small, no-name company. It will take much larger orders from bigger players to really disturb the current supply/demand imbalance.

And even if a new ship wants to come online, it must charge \$38K day rates at 90% utilization for twenty years to reach breakeven.

On the other hand, TDW would generate over \$1B in free cash flow at the current new build economic breakevens.

We also love TDW because it boasts the highest relative strength in its peer group. Check out the Koyfin chart below showing YTD returns for TDW and its industry peers.



The next closest peer, RIG, is up 54%. Not bad, but nowhere near TDW's ~90% return.

You've got a structurally bullish supply/demand tailwind with TDW making billions in FCF at new build economics and a stock price with the best relative strength in a solid bull trend.

We're up roughly 100% on this name, but we have confidence this trend is just getting started. Offshore energy is a long-duration capex cycle, and there's a lot of runway left for this move.

Sprott Physical Uranium (U.UN)

U.UN (or SPUT) is a trust whose sole purpose is to hold physical uranium.

You can read our ***80-20 Uranium Industry Primer*** here.

Financial services company Cantor Fitzgerald updated its short-term uranium price forecasts last week (see below).

Macro Update — October 25, 2023

Exhibit 4. Revised Uranium Price Forecasts

($/lb U3O8)	2023	2024	2025	2026	2027+
Previous - spot	$75.00	$75.00	$75.00	$75.00	$75.00
Previous - term	$85.00	$85.00	$85.00	$85.00	$85.00
Revised - spot	*$73.38**	*$90.00*	*$100.00*	*$110.00*	*$110.00*
Revised - term	*$61.50**	*$100.00*	*$110.00*	*$120.00*	*$120.00*

*last reported
Source: Cantor Fitzgerald

Exhibit 5. Revised Ratings, Price Targets

		Revised		
Company	**Ticker**	**Target Multiple**	**Price Target**	**Rating**
Cameco	CCJ-US/CCO-CN	50/50 blend, 2.25x NAVPS/22.5x 2024E CFPS	$43.00/C$57.00 ↑	Buy ↑
Denison	DNN-US/DML-CN	1.5x NAVPS	$5.00/C$6.75 ↑	Buy
enCore Energy	EU-US/CN	1.5x NAVPS	$6.00/C$7.50 ↑	Buy (S)
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	$10.00/C$12.50 ↑	Buy
Global Atomic	GLO-CN	0.5x NAVPS	C$2.75	Buy (S)
Sprott Physical U	U.UN/U.U-CN	1.05x NAVPU	$23.00/C$31.00 ↑	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	$4.00/C$5.00 ↑	Buy
Yellow Cake	YCA-LSE	1.0x NAVPS	£7.25 ↑	Buy

Source: Cantor Fitzgerald

Exhibit 6. Previous Ratings, Price Targets

		Previous		
Company	**Ticker**	**Target Multiple**	**Price Target**	**Rating**
Cameco	CCJ-US/CCO-CN	50/50 blend, 2.25x NAVPS/22.5x 2024E CFPS	$41.00/C$55.00	Hold
Denison	DNN-US/DML-CN	1.5x NAVPS	$4.50/C$6.00	Buy
enCore Energy	EU-US/CN	1.5x NAVPS	$5.25/C$6.50	Buy (S)
Energy Fuels	UUUU-US/EFR-CN	1.5x NAVPS	$9.25/C$11.75	Buy
Global Atomic	GLO-CN	0.5x NAVPS	C$2.75	Buy (S)
Sprott Physical U	U.UN/U.U-CN	1.05x NAVPU	$20.00/C$25.00	Buy
Ur-Energy	URG-US/URE-CN	1.5x NAVPS	$3.75/C$4.75	Buy
Yellow Cake	YCA-LSE	1.0x NAVPS	£6.25	Buy

Source: Cantor Fitzgerald

CATCH-UP TRADE IN THE URANIUM EQUITIES

Year-to-date the spot uranium price has rallied +51% to $73.38/lb U_3O_8 while the uranium equities have lagged, rising +43%, as measured by the Sprott Uranium Miners ETF (URNM-NYSE, Not Covered) over the same period. While Cameco has captured most new investment capital in the sector (rising +71% year-to-date), fund flow appears to be starting to move down-cap. We continue to believe the better value proposition for new investment capital entering the sector, and for investors who have enjoyed substantial gains in

Mike Kozak, (416) 350-8152 — 5 of 9

Cantor raised both spot and term price forecasts for 2024-2027 and now sees $100 spot prices by 2025. SPUT loved the news and broke new highs.

Maybe Cantor's price revision has to do with the [IEA estimating that nuclear energy](#) will represent 8% of global power by 2050.

Or maybe it's because utilities are finally waking up to the fact that they're structurally short uranium and need to a) replenish their stockpiles and b) keep their power plants running.

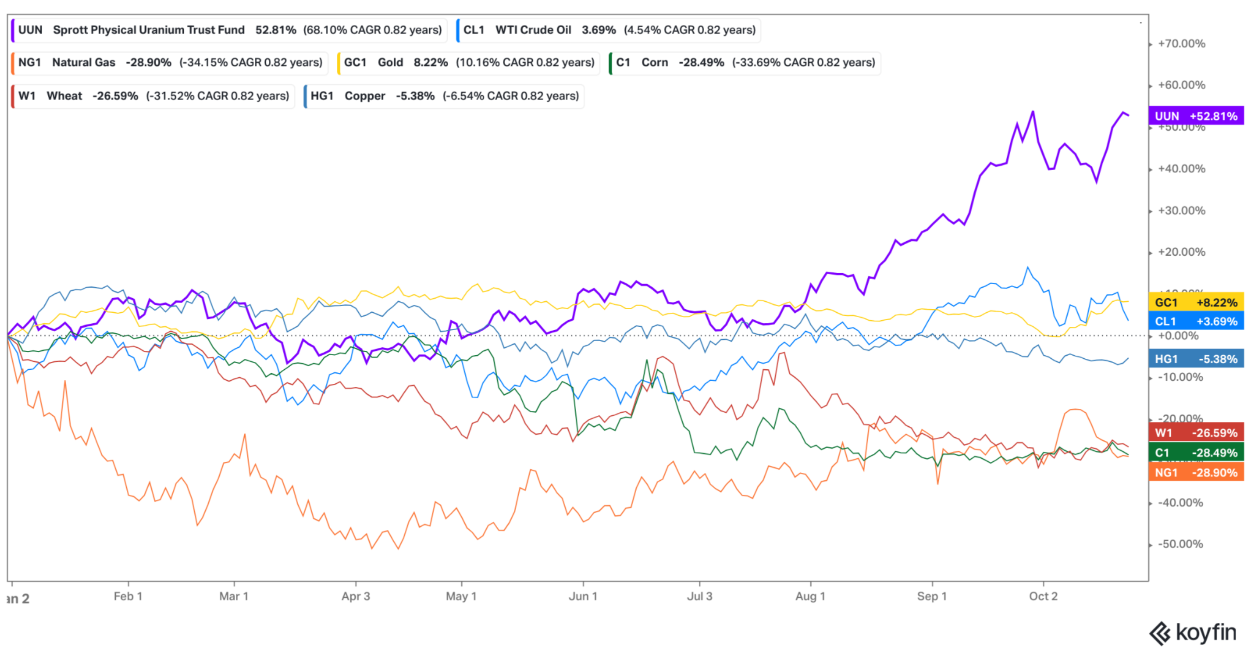
Or maybe it's Kazakhstan saying it wants to not only produce most of the world's uranium but [start consuming it too](#).

Anyways, natural resources firm Goehring & Rozencwajg released a uranium interview this week. It's [worth a listen.](#) Here are two of my favorite quotes from the interview:

> *"I think over the long term on a sustainable basis both supply and demand can probably sustain US$120 a pound, and that would be enough to bring on supply over time."*

> *"None of them make the slightest bit of difference to supply and demand dynamics between now and 2030. What you have now is a China reactor buildout story, you have an India reactor hopeful plan and you have Saudi Arabia looking to build reactors as well. And that's all you need — that's what keeps this market really tight until the end of the decade."*

Finally, it's impossible to ignore uranium's relative strength over the past 6-12 months. It's beaten oil, gas, gold, silver, even QQQ and SPY (see below).



SPUT remains our largest equity position in the book.

Conclusion: Keep Doing What Works

We're up ~16% YTD in our port, with below-market volatility.

Every name in our equity book meets the below criteria:

- **Highest relative strength in its industry/peer group**
- **Strongest technicals**
- **Substantially discounted to its fair value**
- **In industries with long-term structural tailwinds**

The current names in our book offer a high hurdle rate for new ideas. It's one of the reasons why we haven't added many new names to the port.

That said, the metals, mining, and commodity markets are heating up. And it looks like Q4 '23/Q1 '24 will provide opportunities to buy great assets at great prices. Here's what's on my watchlist:

- Mining heavy equipment rental companies trading at <5x profits
- Specialty mining/commodity labor companies with little-to-no competition
- Copper-zinc-gold miner trading at <3x 2024E FCF
- Profitable silver miner with a tender to purchase 10% of its stock
- Post-bankruptcy uranium power play with uplisting/profitability catalyst

I also finished the best book I read in 2023 this week. So expect ***Book Notes*** of that in the next few weeks.

There are so many interesting things happening in markets I feel like I could turn the ***Long Pull Report*** into a daily publication. But I won't spam your inbox like that.

Expect the next few issues to be a bit longer than normal, though.

Let's end this year strong and set ourselves up for a banner 2024.

Your Value Operator,

Brandon