MACRO OPS
TRADE - LEARN - EVOLVE

November 08, 2023

THE LONG PULL: Tidewater (TDW) Earnings, Uranium, and Tin

It's been a busy week.

Tidewater (TDW) reported earnings this week (Tuesday), and the market hated it. The stock sold off ~12% on the day. We think the reaction is overblown and share some insights from the earnings call before updating our 2-3 year valuation case.

Meanwhile, the bull case for uranium is only strengthening, with the latest developments signaling *even further* supply/demand imbalances over the next 2-3 years.

Finally, we cover some interesting news in tin, including updated cost breakevens and recent Myanmar shutdowns.

Let's get after it.

Tidewater (TDW) Earnings Recap

If you judged TDW's fundamental performance by its post-earnings price action, you'd think it slipped a few debt covenants. As of writing, TDW is down ~12% to $59/share.

There are myriad reasons for the price decline, but we'll get to that later. First, let's recap the earnings report. Here were the highlights:

- Revenue **increased** by 39.2% to $299.3 million
- Average day rate **increased** to $17,865, $1,823 higher than Q2 2023
- Leading edge term contract day rate **up 21.7%** to **$28,609**
- Adjusted EBITDA **increased by $45.2M** to $117.2 million
- Completed integration of 32 of the 37 recently acquired PSVs from Solstad Offshore (SOFF)
- Announced $35M **share buyback program**
- 2024 revenue guidance of $1.40-$1.45B

All good things. The revenue guidance came in above analysts' consensus estimate of ~$1.38B (see Koyfin chart below).

Earnings Matrix - Reported & Estimates

Sales | EBITDA | EBIT | EPS | EPS GAAP

	FY 2022	FY 2023	FY 2024	FY 2025
1Q Mar	$ 105.73M	$ 193.10M	$ 315.60M	$ 339.46M
2Q Jun	$ 163.45M	$ 214.96M	$ 338.05M	$ 379.05M
3Q Sep	$ 191.76M	$ 299.26M	$ 361.62M	$ 410.89M
4Q Dec	$ 186.75M	$ 309.05M	$ 365.55M	$ 398.32M
Year	$ 647.68M	$ 1.01B	$ 1.38B	$ 1.55B
Growth	74.56%	56.25%	36.02%	12.85%

And even though the guide was above analysts' estimates, I still think it's conservative. TDW averages ~$18K day rates. Yet they'd get $28.6K/day if they signed contracts today (i.e., leading edge rates).

It will take ~15 months for TDW's current contracts to roll off and sign contracts at the leading edge rate ($28.6K). I know it sounds obvious, but revenue should increase as they trade $18K rates for $28.6K rates, which should flow through to increased EBITDA.

Analysts' estimates for 2024-2025 EBITDA are $646M and $824M, respectively (see below).

Earnings Matrix - Reported & Estimates

Sales | EBITDA | EBIT | EPS | EPS GAAP

	FY 2022	FY 2023	FY 2024	FY 2025
1Q Mar	$ 24.28M	$ 59.07M	$ 147.85M	-
2Q Jun	$ 39.14M	$ 71.95M	$ 166.55M	-
3Q Sep	$ 52.05M	$ 117.18M	$ 187.60M	-
4Q Dec	$ 51.25M	$ 138.73M	$ 197.70M	-
Year	$ 166.73M	$ 405.00M	$ 646.68M	$ 824.50M
Growth	380.27%	142.90%	59.67%	27.50%

The bull case is that as day rates increase, so too will analysts' estimates of revenue, EBITDA, and cash flow. Because here's the thing. As TDW rolls off existing contracts, there's a chance they will sign new contracts at *even higher* day rates. So, instead of $28.6K/day, the leading edge rate becomes $30K or higher.

If this happens, it forces analysts to revise revenue and EBITDA estimates above $1.55B and $824M, respectively, on a stock already trading at $4B EV. At current estimates, TDW will earn ~$1.5B in EBITDA over the next two years. That's ~40% of its EV.

Moreover, if day rates stay elevated for 2-3 years, TDW will earn its market cap in EBITDA by 2026. Assume a 5-7x exit multiple on 2026 EBITDA, and you get a $6B+ EV that you're paying ~$3B for today.

So why is the stock down 12% after earnings? A few reasons:

First, TDW is up a lot this year, and no fund wants to hold energy/offshore services into an earnings print. For instance, before today's price dump, TDW was ~40% above its 50MA (hyperextended short-term).

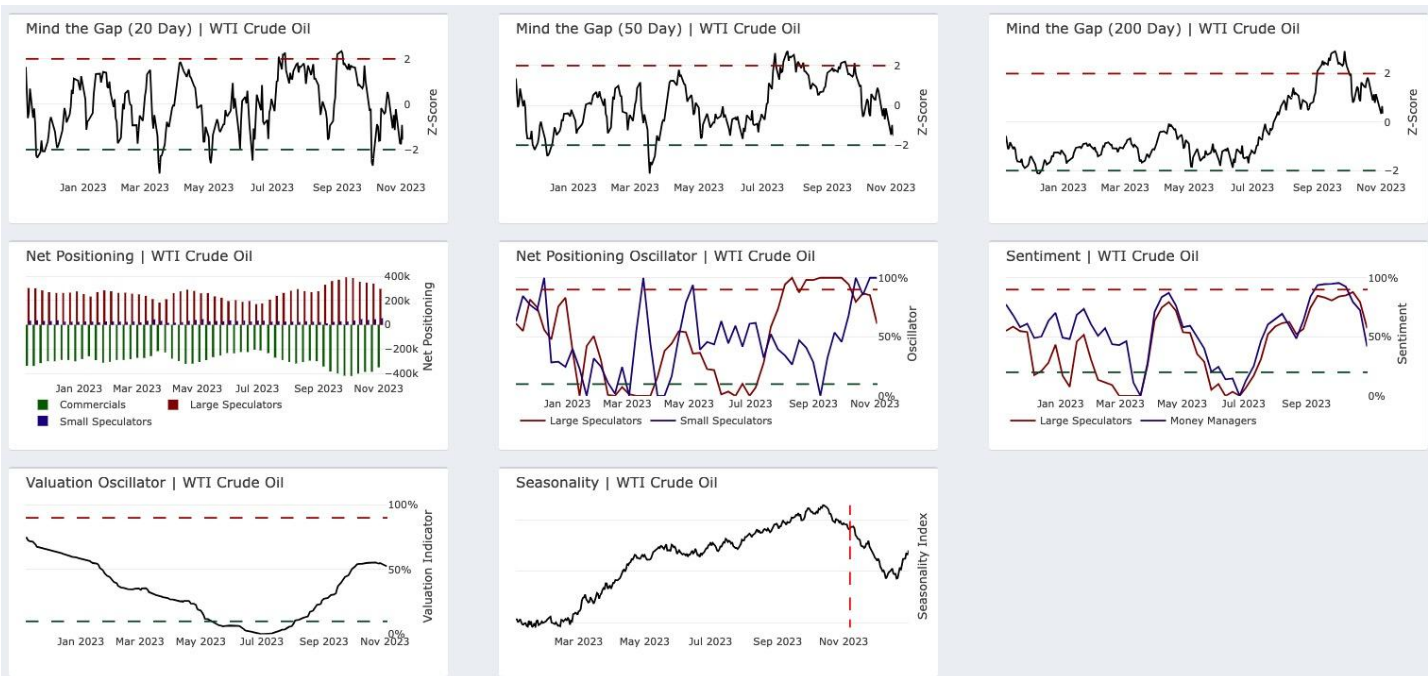
Second, bears remain skeptical about a) day rate inflections b) the duration of OSV asset lives, and c) newbuild order books. Will day rates stay around $28K or reach newbuild economics? Do OSVs really have 20-30 year lives? How many new builds before this whole thing blows up in our faces?

Order books remain low, which increases existing fleet asset lives and puts a floor on contracted day rates. But we're monitoring each of these drivers for a structural change.

Third, oil is down ~17% since late September. So anything related to oil will trade down in sympathy. Plus, there were good reasons to be skeptical of oil at $90+/bbl.

Large specs were 100% long oil in late September, along with overextension from the 200MA. Even today, small specs are still 100% long while oil enters its worst seasonality period (see HUD CoT data below).

It became a crowded trade.



Let's step back for a second. The stock is still up 65% YTD if you include today's ~12% decline. This is a long duration bet on offshore oil investment. TDW will not trade in a straight line up. We should expect pullbacks like the one we're seeing today as par for the course.

Day rates are inflecting higher, offshore investment continues to climb, the company is buying back as much stock as it can within its debt covenants ($35M), and oil is still above most of the offshore breakeven price of $35-$45/bbl.

Today's reaction is overblown and does not reflect the company's (or industry's) fundamentals. Our risk management system may take us out of TDW by the end of the week. But we'll gladly get back in on consolidation.

Uranium: Make Reactors Great Again!

I've [written a lot about uranium] recently. If you recall, the general thesis is that utility providers like nuclear power plants are structurally short physical uranium after spending the past decade draining stockpiles without re-stocking.

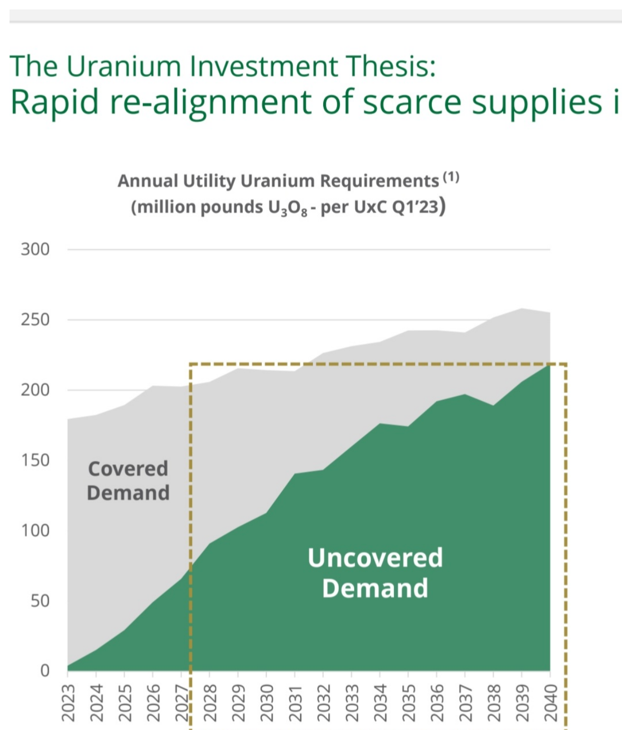
Do that long enough, and the tide turns to "oh shit, we gotta start stockpiling this stuff."

We're at that point now.

Utility companies are short while governments reactivate power plants, extend plant lives, and adopt a positive stance on nuclear power.

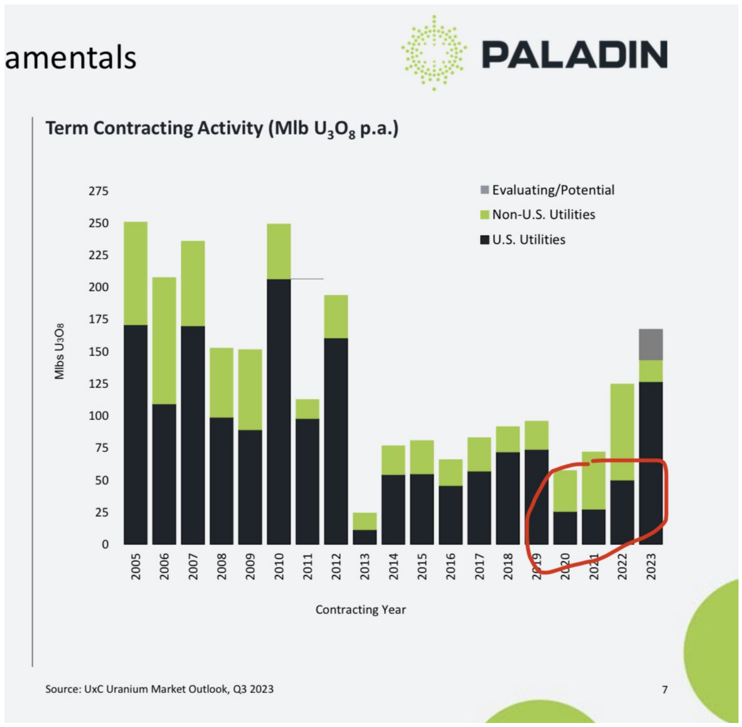
This brings us to last Wednesday (11/01) when Japan [extended two reactors] by *twenty* years. Here's an excerpt from the article (emphasis added):

> *"The operational lifespan of Japanese reactors has been limited to 40 years in principle since the Fukushima Daiichi nuclear plant accident in 2011. But it can be extended by up to 20 years if the reactors pass screening by the Nuclear Regulation Authority.*
>
> *At a meeting on Wednesday, **the NRA granted extension approval to the No.1 and 2 reactors at the Sendai nuclear power plant in Kagoshima Prefecture**, which is operated by the Kyushu Electric Power Company.*
>
> *The No.1 reactor will turn 40 next July and the No.2 will reach that age in November 2025.*
>
> *Discussed at the meeting were the results of special inspections of the reactors conducted by Kyushu Electric and **an assessment that showed the reactors can be used for another 20 years.***
>
> *The members of the meeting **unanimously approved the extensions."***



The math is simple. The longer a plant lives, the more uranium it consumes/needs. And if they're short yellow cake pre-extension, how short are they with extensions?

Paladin recently released a chart highlighting how little uranium pounds utility have contracted over the past two years. In 2010, the year before Fukushima, US utilities contracted 200Mlbs of uranium. Between 2020-2023, US utilities contracted a ***total*** of ~100Mlbs of uranium.



Even today we saw Switzerland extend nuclear plant lives from 60 years to 80 *"over fears of electricity shortages."* Almost as if they're worried flaming offshore wind farms won't keep them warm in the winter.


Switzerland to Keep Using Nuclear Energy Longer Than Expected

Tuesday, November 7, 2023 07:42 AM
By Bastian Benrath

- Operators prolonged reactors' lifespan to 60 years, now eye 80
- France, Belgium, Finland, Romania also looking into extensions

(Bloomberg) -- Switzerland plans keeping nuclear plants in use longer than previously expected over fears of electricity shortages, mirroring a broader trend of European countries revisiting the potential of atomic energy.

This brings us to our U.UN position. As of writing, it's ~15% of our equity book. Last week, I discussed our U.UN position with a Collective member who's playing the uranium theme another way.

Instead of just long U.UN, they hold a mix of Yellow Cake PLC (YCA) and Global X Uranium ETF (URA).

I like this idea.

YCA is interesting because they're not a trust, like U.UN, and can be easily bought out by a producer or utility company needing more physical uranium. Conor Maguire pitched this idea on my podcast.

And URA has one of the most liquid options markets to play uranium.

The rebuttal to owning U.UN is that it has historically traded at a discount to NAV. This is a problem because one of the major selling points of a vehicle like U.UN is they issue shares, ideally at a premium to NAV, to buy more physical uranium. So you get a double shot of growth from spot uranium increases and the narrowing of the discount to NAV.

If I were to change our current exposure, it would look something like this:

- 5% in U.UN
- 5% in YCA (for the buyout kicker)
- 5% in URA LEAPs

That structure creates more upside asymmetry while preserving the downside risk (lower cash outlay for the LEAPs), all without incurring single-mine exposure.

Let me know what you guys think. I'm not married to anything yet. But curious.

Tin: PT Timah Readthrough, Myanmar Ban, & Other Items

PT Timah is one of the largest tin exporters globally. They're an excellent readthrough on the general cost curve dynamics in the tin industry. The company reported earnings on October 31 for the nine months September 30, 2023.

They lost 87.45B rupiah during the period at an average tin selling price of $27,000/ton. In other words, the world's largest tin exporter can't make money at $27K tin.

This is great news for our favorite tin stock, Alphamin (AFM). They have ~$14k/ton breakevens and make ~$13k/ton at $27k tin prices.

PT Timah can't operate forever at $27K/ton. Eventually, prices must rise to incentivize production, especially if supply comes up short (which we're getting to).

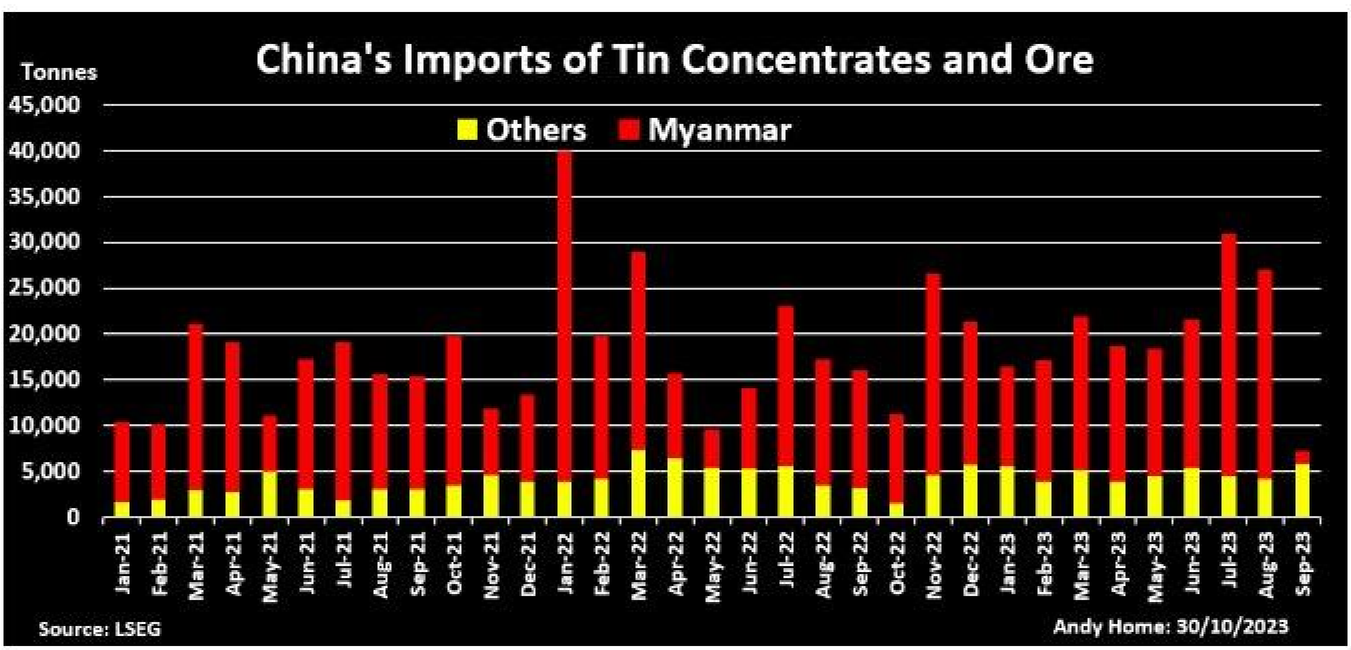
Also, I'm not sure how I [haven't seen this video until today](). Last year, *Insider News* profiled Indonesia's offshore tin mining industry. I've written about the rag-tag offshore mining methods before. But seeing it really does it justice.

Watch this video and tell me why the current tin price incentivizes this type of mining.

Finally, Myanmar's largest ethnic group, The United Wa State Army (UWSA), halted all tin mining and processing in the region. This is a big deal for two reasons. One, Myanmar is the world's third-largest tin producer. Two, the Wa State mines represent 70% of Myanmar's production.

From the [Reuters article]() (emphasis added):

> *"The ban remains in force and is now* ***starting to constrain the flow of concentrates to China's smelters****.*
>
> *Chinese producers built up stocks of both raw material and refined tin in anticipation of the halt in activities, and the impact on the supply chain has so far been limited.*
>
> *It helps that global tin demand is currently tepid due to weakness in the electronics sector, which accounts for around half of all tin consumption in the form of circuit-board soldering."*



Closing Thoughts

I'm starting to kick the tires on oilfield service companies (or OSVs) again. There are some super cheap OSVs with deleveraged balance sheets and strong asset protection generating tons of free cash flow with management about to turn on the buyback/special dividend machine.

I also found a hard asset/land/water/pistachio company trading at 17% of its liquidation value. It reminded me of that Arizona-based water rights company I wrote about last year. That one got bought out *right before* I published the note at a decent premium. Fingers crossed, I can get this one out before that happens.

Also, we released a Beta Version of a new backtesting tool in the HUD. If you haven't seen it, play around with it. I'm working on a ton of base metal backtests to share with you in the coming weeks. Stay tuned.

Your Value Operator,

Brandon