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March 27, 2024

THE LONG PULL: Portfolio Updates (APM.V & MSA.V Earnings)

It's earnings season for our portfolio companies. This week, we cover Q4/full-year results from Andean Precious Metals (APM.V) and Mineros S.A. (MSA.V).

Andean Precious Metals (APM.V): Doubling Production by Year-End

Here's the TL;DR bull thesis on APM from last week's *Long Pull Report.*

> *APM is a $130M Bolivian silver producer that recently purchased a gold mining asset in California (Golden Queen).*
>
> *The company generates $12M in annual free cash flow from its Bolivian operations at current silver prices. Once ramped, the company's Golden Queen mine should generate another $30-$33M in free cash flow.*
>
> *We bought our shares around CAD 0.70 for an implied FCF yield of ~39-42%. Management owns ~50% of the shares. There's $44M in net cash on the balance with no outstanding warrants. Then add another $100M+ in metals inventory (gold and silver), which is probably worth more than our initial purchase price.*

You can read the full deep dive here.

APM reported Q4 and full-year earnings this morning (Wednesday). Here are the highlights:

- ➢ Revenue increased by 16% to $125M
- ➢ Gross Operating Income increased by 46% to $14.2M
- ➢ EBITDA increased by 3,269% to $50.2M
- ➢ SG&A Expense *decreased* by 10% to $13.5M
- ➢ Gold ounces sold increased by 229% to 7.7Koz
- ➢ Silver ounces sold decreased by 5% to 4.54Moz
- ➢ Silver Equivalent Ounces sold increased by 5% to 5.2Moz

The big thing is that **this year's numbers will look *much different* than 2023.**

Golden Queen Mine: 60Koz By 2024

APM had roughly one month of operations from its newly acquired Golden Queen gold mine. Yet during that month, the mine produced 5.1Koz of gold and 51Koz of silver (61Koz of gold and 612Koz of silver on a run-rate basis).

Check out some pictures from the Golden Queen mine below.

Soledad heap Leach operations

Soledad crushing

The company has guided to 60,000oz of gold production from Golden Queen for 2024. That's 10,000oz higher than APM's original guidance and higher than the 50Koz figure we used to estimate the mine's 2024 cash flows.

Golden Queen is significant because it will **double the company's silver equivalent production** in just one year (see below).

Production guidance

	2024 Guidance +/- 5%	Actual 2023	Revised guidance 2023
Golden Queen			
Gold equivalent (koz)[3]	**60**		**-**
San Bartolomé			
Silver equivalent (koz) [3]	**5,000**	4,715.0	**4.6 million to 4.8 million**
Consolidated			
Silver equivalent (koz)[4]	**10,429**		**-**

That's why I stressed that this year's numbers will look very different from 2023. **The company is doubling production at higher commodity prices**.

Here's my Golden Queen model with the updated production and cost guidance (see below).

Golden Queen Mine	**2024**	**2025**	**2026**
Gold Production (oz)	60,000	61,000	62,000
Avg. Gold Price	$2,200.00	$2,300.00	$2,400.00
Total Revenue	$132,000,000	$140,300,000	$148,800,000
AISCs ($/oz)	$1,750	$1,800	$1,850
Total Costs	$105,000,000	$109,800,000	$114,700,000
Net Profits	**$27,000,000**	**$30,500,000**	**$34,100,000**
Less Capex	$10,000,000	$10,000,000	$10,000,000
Free Cash Flow	**$17,000,000**	**$20,500,000**	**$24,100,000**

I estimate that the mine will generate $27M in net profits this year and up to $34M by 2026 on rising gold prices and increased production.

The mine will also incur higher capex costs as they ramp production, which decreases short-term free cash flow. For instance, APM will add ~4-6 new heavy equipment trucks to the mine site this year.

Finally, the AISCs guide of $1,750/oz is a bit higher than I expected but not enough to change the thesis materially. However, it will become a problem if it rises a) faster than inflation/peers or b) faster than the gold price.

Onto the silver operation.

San Bartolome: 5Moz at ~$4.00/oz Margins

APM produced 4.72Moz of silver from its San Bartolome production and artisanal purchasing agreements in 2023 at a 12.4% average cash operating margin (or $2.71/oz).

This year, the company expects to produce 5Moz of silver at a 19.5% cash operating margin or $3.88 per ounce profit (see below).

	2024 Guidance +/- 5%	Actual 2023
Golden Queen		
Operating cash cost ("OCC") per gold equivalent ounce produced, on a by-product credit basis[5]	$ 1,500	$ -
All-in sustaining costs (AISC") per gold equivalent ounce sold on a by-product credit basis[5]	$ 1,750	$ -
San Bartolomé		
Cash gross operating margin per equivalent ounces produced[6]	$ 3.88	$ 2.71
Gross margin ratio [7]	19.5%	12.4%

The math works to a ~$25/oz silver price and $21/oz AISCs.

Why the jump in cash operating margin? APM is shifting silver production from its lower-grade, higher-cost Pallacos deposit to higher-grade, lower-cost deposits in Paca and Alta Vista.

Here's my estimate of the company's silver asset cash flows over the next three years.

Unit Economic Model	2024	2025	2026
Silver Eq. Production (Moz)	5.00	5.00	5.00
Avg. Silver Price	$25.00	$26.00	$27.00
Total Revenue	$125.00	$130.00	$135.00
AISCs ($/oz)	$21.00	$21.50	$22.00
Total Costs	$105.00	$107.50	$110.00
Net Profits	**$20.00**	**$22.50**	**$25.00**
Less Capex	$4.20	$4.20	$4.20
Free Cash Flow	**$15.80**	**$18.30**	**$20.80**

Higher cash margins should allow APM to generate ~$16M in free cash flow or **a 20% yield at our cost basis enterprise value.**

Let's step back and look at the long-term silver chart. Below is a quarterly chart.

Silver is range-bound between $19 and $29/oz. Could we see $30/oz silver this year? Yes. Could we see $19/oz silver? Also, yes.

Usually, silver lags gold on the spot and miner performance. And we're still in that lag/waiting phase. But check out the chart below of Silver Miners Compared to Gold Miners. What do you notice?

The last time silver miners traded this low compared to gold miners was in 2010. They then went nuts with ~7 years of outperformance compared to gold miners.

APM will *rip* if this trend reverses and resembles 2010-2017. Maybe the catalyst is $30/oz silver.

Bringing It Together: 40% EV Yield At 2024 Production

The company's combined assets should generate **~$57M in net profits** and ~$30M in free cash flow (depending on capex investments at Golden Queen) in 2024.

Our cost basis is CAD 0.70 or a CAD 110M market cap. Let's examine the balance sheet.

APM has a strong balance sheet with CAD 30M in net cash, not including its precious metals inventory (calculation: cash + investments—total debt). Monetizing that inventory would add another ~$92M in cash.

So we bought APM for a CAD 79M enterprise value, which, at current gold and silver prices, will likely generate $30M+ in free cash flow this year.

Here's another way to think about it: If gold hit $2,500 and silver hit $30/oz, APM would generate our entire EV in profits. That doesn't sound *that* ridiculous, either.

Let's discuss our other small PM miner, Mineros SA (MSA.V).

Mineros S.A. (MSA.V): Record Revenues, Profits, & Dividends

Here's the elevator pitch on MSA from my initial write-up.

> *MSA is a mid-tier gold mining company operating in two countries, Colombia and Nicaragua.*
>
> *We bought our shares at $0.81 for a $243M market capitalization (Note: $ = Canadian dollars).*
>
> *Since 2019, the company has returned $117M in dividends while reducing total debt from $114M to $43M. That's ~$188M in cumulative shareholder returns.*
>
> *We bought the stock for three main reasons:*

1. *MSA has torque on higher gold prices, which should lead to outsized free cash flow generation over the next few years.*
2. *The company will use those cash flows to eliminate all outstanding debts.*
3. *MSA can juice shareholder returns once debt-free via increased dividends and buybacks.*

In short, MSA can return at least 80% of our cost basis by 2026 between dividends, debt reduction, and share buybacks at the current gold price and estimated production guidance.

MSA is up ~30% since we bought last month. But as I'll explain, the stock is still worth owning at these prices.

The company posted "boring" Q4 and full-year results. They did what they said they would do, made more money than last year, and raised their dividend by 29% while maintaining a fortress balance sheet.

Let's start with the income statement, which shows the power of owning miners during commodity cycles.

	Three Months Ended December 31,		Change		Year ended December 31,		Change	
	2023	2022	#	%	2023	2022	#	%
Revenue	130,427	105,059	25,368	24%	447,290	414,937	32,353	8%
Cost of sales	(82,663)	(70,677)	11,986	17%	(301,888)	(282,918)	18,970	7%
Gross Profit	47,764	34,382	13,382	39%	145,402	132,019	13,383	10%
Profit for the period from continuing operations	22,808	18,136	4,672	26%	74,538	56,097	18,441	33%
Loss for the year from discontinued operations	(1,043)	(38,130)	37,087	(97)%	(57,324)	(51,610)	(5,714)	11%
Net Profit for the period	21,765	(19,994)	41,759	(209)%	17,214	4,487	12,727	284%
Basic and diluted earnings per share from continuing operations	0.08	0.06	0.02	26%	0.25	0.19	0.06	33%
Basic and diluted earnings per share from continuing and discontinued operations	0.07	(0.07)	0.14	(209)%	0.06	0.01	0.04	284%
Average realized price per ounce of gold sold ($/oz) [1]	—	1,731	(1,731)	(100%)	1,938	1,794	144	8%
Average realized price per ounce of gold sold from continuing operations ($/oz) [1]	1,975	1,751	224	13%	1,937	1,800	137	8%
Average realized price per ounce of gold sold from discontinued operations ($/oz) [1]	—	1,731	(1,731)	(100%)	1,938	1,794	144	8%
Adjusted EBITDA [1]	53,364	40,117	13,247	33%	172,146	156,156	15,990	10%
Cash Cost per ounce of gold sold from continuing operations ($/oz) [1]	1,051	993	58	6%	1,090	1,022	68	7%
All-in sustaining costs per ounce of gold sold from continuing operations ($/oz) [1]	1,316	1,228	88	7%	1,299	1,219	79	7%
Net cash flows generated by operating activities	52,932	36,602	16,330	45%	89,908	82,607	7,301	9%
Net free cash flow [1]	36,761	32,210	4,551	14%	49,202	35,611	13,591	38%
ROCE [1]	30%	25%	5%	21%	30%	25%	5%	21%
Net Debt [1]	(24,316)	17,517	(41,833)	(239%)	(24,316)	17,517	(41,833)	(239%)
Dividends paid	5,228	4,862	366	8%	20,519	22,990	(2,471)	(11%)

MSA's average realized gold price increased 8% to $1,938/oz. Yet operating profits grew by 33% to $75M.

In other words, a 1% change in gold prices increased operating profits by 4.13%.

The company ended the year with $24M in net cash ($57M against $32.8M in total debt), excluding any receivables or metals inventory.

	December 31,	
	2023	**2022**
Loans and other borrowings	32,802	56,322
Less: Cash and cash equivalents	(57,118)	(38,805)
Net Debt	**(24,316)**	**17,517**

We bought our shares at (USD) $0.61 for a $183M market cap and $159M enterprise value or **a 47% operating profit yield.**

Let's talk about the next few years.

The company estimates annual production between 209,000 – 229,000oz with an average ASIC of $1,480/oz.

Here's our back-of-the-napkin three-year model (see below).

Unit Economic Model	**2024**	**2025**	**2026**
Gold Eq. Production (Koz)	219	220	220
Avg. Gold Price	$2,200.00	$2,300.00	$2,400.00
Total Revenue	$481,800.00	$506,000.00	$528,000.00
AISCs ($/oz)	$1,480.00	$1,485.00	$1,490.00
Total Costs	$324,120.00	$326,700.00	$327,800.00
Net Profits	**$157,680.00**	**$179,300.00**	**$200,200.00**
Less Capex	$62,634.00	$65,780.00	$68,640.00
Free Cash Flow	**$95,046.00**	**$113,520.00**	**$131,560.00**

MSA will generate $158M in net profits and $95M in free cash flow (before debt repayments, dividends, buybacks, etc.). As a reminder, we estimate capex as a percentage of revenues, which historically has been ~13%.

That's a 60% FCF yield at our cost-basis enterprise value.

To get a 95% FCF yield, we'd need $2,500/oz gold, which, again, doesn't sound unreasonable!

What will MSA do with its cash? $27M will go towards dividends (see below).

Dividends Proposal

The Board of Directors proposes to distribute US$ 26,976,366 in dividends between its shareholders, which in respect of each common share held is:

	Quarterly	Annual
Ordinary Dividend	US$ 0.01875	US$ 0.075
Extraordinary Dividend	US$ 0.00375	US$ 0.015
Total	**US$ 0.0225**	**US$ 0.090**

The proposed dividend is **28,6% higher** when compared to 2023 anual dividend of US$ 0.070 per common share.

Some will go towards sustaining capex, and some will go towards debt repayments. I don't know the exact numbers, but the company has $57M in cash on the balance sheet today and could add another $95M+ by the end of the year.

They do not need this much cash on the balance sheet.

I'm trying to contact management to understand their capital allocation policies.

Ideally, they pay the dividend, hike the extraordinary dividend, and use the rest of the FCF to retire all LT debt.

After that, they should hammer buybacks.

This is a low-float stock with 90% of shares locked up between large institutional hands and long-term investors. It would not take much buying pressure to send this stock above $1.25-$1.50/share.

This company has so much optionality with its producing assets, strong balance sheet, and stable cash flow generation at current gold prices. Things get silly at $2,500/oz gold, and I'm here for it.

That's all I got this week! Until next week.

Your Value Operator,

Brandon