MACRO OPS
TRADE - LEARN - EVOLVE

May 01, 2024

THE LONG PULL: Portfolio Updates (AFM.V & VIST)

Happy May Day!

It's a new month and a clean slate.

I'm running on three hours of sleep. This baby is kicking my ass. Many of you have told me it gets better … and I *want* to believe you. I really do.

The nights are long. And though I complain about the sleep, I know one day I'll wish I had this time back.

This week, we're updating two of our portfolio companies: **Vista Energy (VIST)** and **Alphamin Resources (AFM.V)**. Both companies reported earnings this week, comprising ~18% of our equity book.

But before that, here is the latest Macro Ops Performance Data:

- **April 2024:** +8.00%
- **Q2-to-date:** +8.00%
- **Year-To-Date 2024:** +27.14%

Alright, let's get after it.

Vista Energy (VIST) Q1 2024 Earnings: Executing on 2026 Plans

VIST is our Mexican-based Argentinian oil producer in the Vaca Muerta basin. The company is one of our biggest winners in the portfolio, up 204% from our average cost and 12R from our initial risk point.

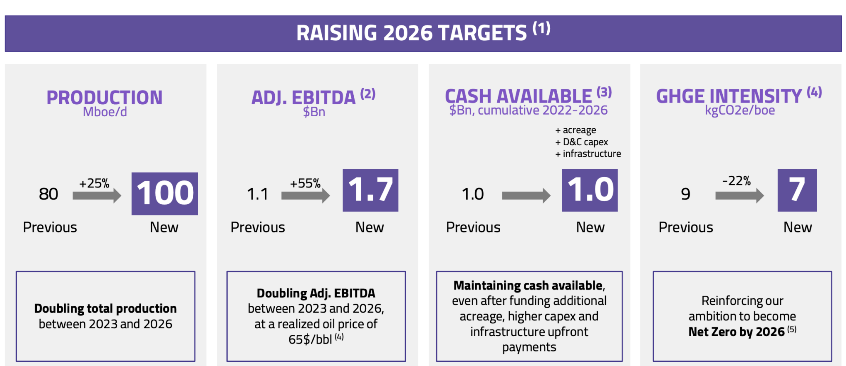
Here are the highlights from their Q1 earnings report:

- $317M in revenue
- $221M in adjusted EBITDA
- 55Mboe/d production (thousand barrels equivalent)
- -$84M in FCF
- 0.58x Net Leverage

Short-term investors didn't like the report and sold shares down ~8% after the market close. You can't blame them with flat YoY revenue growth and negative FCF. However, VIST recovered during the day session and closed near its highs (see below).

The TL;DR is that this quarter doesn't matter.

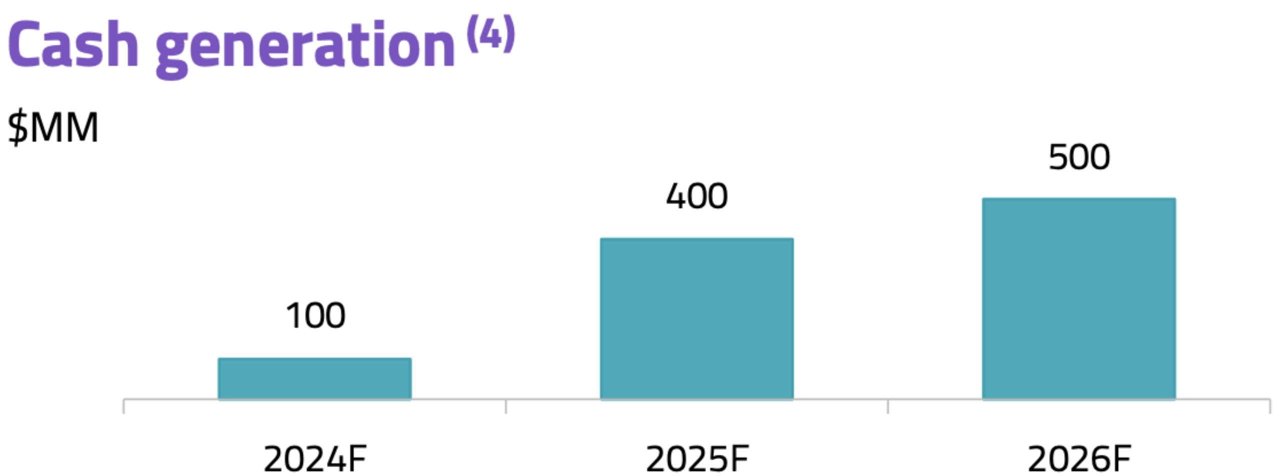
What matters is if the company can reach its 2026 goals, which requires heavy capex spending on drilling to expand reserves and production (see below).



VIST executed that plan during the quarter. They spent $242M tying in 11 wells and added a third super-spec rig to tie in another 4-8 wells next quarter.

Sure, FCF was negative. But they're funding their massive growth plan with cash from operations. Management already telegraphed that 2024 would be the biggest capex year (~$900M) with lower full-year FCF.

The ~~plan~~ hope is that the growth investments made today will help VIST generate ~$1B in cumulative free cash flow by 2026 at $65/bbl oil (see below).



Here's the interesting part: Each $10 increase in the price of Brent oil would generate $600M in cumulative cash flow. Brent trades at ~$ $85/bbl as of this writing.

That's another **$1.2B in cumulative FCF,** assuming brent stays around $85/bbl through 2026. The company currently trades at a $4.26B market cap with $578M in net debt ($4.8B EV).

VIST doesn't pay dividends or buy back stock (besides one token buyback in 2022). So we can assume that all the cash goes towards debt reduction with the remainder sitting on the balance sheet.

The result is a $2.64B EV with a 1.55x EV/EBITDA valuation by 2026 (see below).

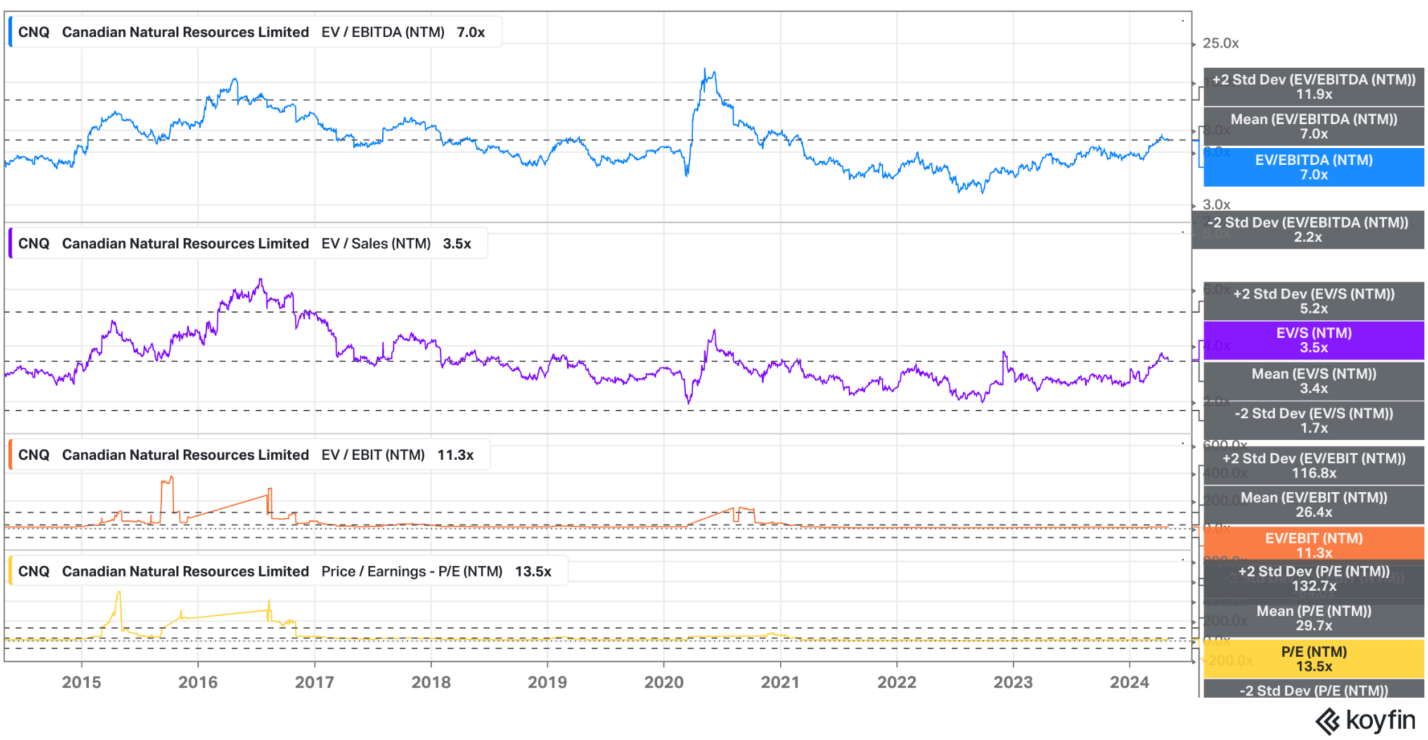
	2024	2026
Market Cap	$4.26	$4.26
Net Debt	$0.58	-$1.62
EV	$4.84	$2.64
EV/EBITDA	***4.84***	***1.55***

This is why we hold a stock that has returned over 12R. Despite making new ATHs weekly, it's getting *cheaper* over time.

By 2026, the company would produce ~100Mboe/d with 0.4x leverage, generate 40% ROCE, and 70%+ EBITDA margins.

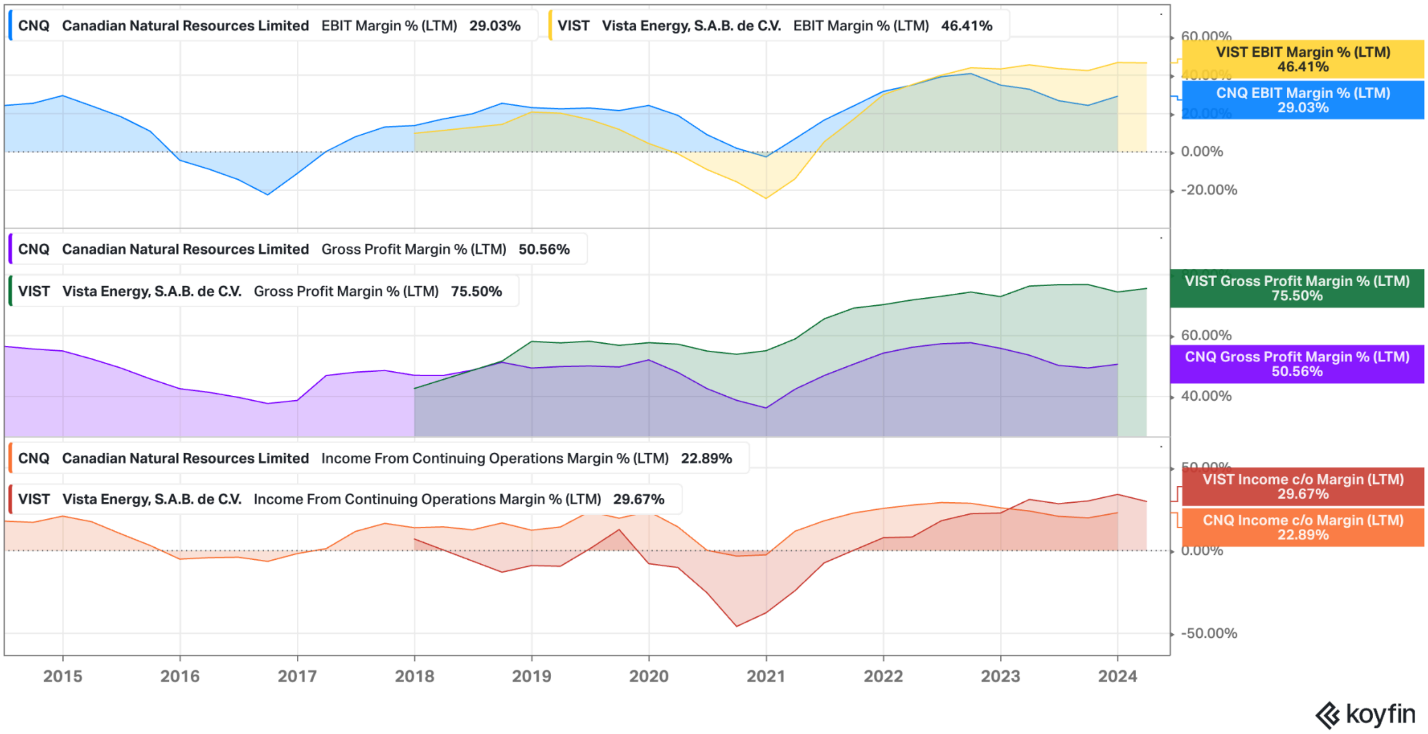
How would investors value VIST?

Let's use Canadian National Resources (CNQ) as an example. CNQ is a $120B+ Canadian oil, natural gas, and NGLs producer. Here's a 10YR history of their valuation (see below).



Historically, CNQ has traded at ~7x EBITDA. Over the past three years, the company has averaged ~5x EBITDA and ~8x EBIT.

Should VIST command a similar multiple? Yes. And here's why …



VIST outperforms CNQ in EBIT margin, GP margin, and Cash from Operations Margin. Investors shouldn't have any issue valuing VIST at 5x EBITDA.

This would double today's share price (see below).

2026 Valuation	
EBITDA	$1.70
Multiple	5
EV	$8.50
Add (Subtract) Net Cash	$1.62
Market Cap	**$10.12**
Upside	**137.61%**

We love VIST and will hold as long as technicals and fundamentals trend higher.

Now, onto Alphamin (AFM.V).

Alphamin Resources (AFM.V): Executing Despite War Threats

AFM released Q1 results this week and they did not disappoint. Check out the highlights (YoY comparison):

- ➢ **Contained tin sold:** 4,126 tons (+102%)
- ➢ **Average tin price:** $26,863/ton (+7%)
- ➢ **All-in Sustaining Cost (AISC):** $14,858 (+2%)
- ➢ **EBITDA:** $52.1M (+156%)
- ➢ **Paid dividend** of CAD 0.03/share

The company generated $68M in cash from operations during the quarter. $25M of that $68M came from Accounts Receivable unwind as it improved road conditions and construction issues.

AFM ended the quarter with $53M in cash versus $7M the prior year.

Finally, Mpama South is in the final commissioning phase and will go online *this* month. We will see contribution from Mpama South in Q2.

There's so much to love about this earnings result. The company is doing what we thought it could … increase EBITDA, bring Mpama South online, pay a dividend, and maintain its low-cost AISC.

Here's what we wrote in December 2023 (emphasis added):

> *Contained tin sales will be lower this quarter than expected. That's fine. It doesn't matter what this quarter's sales or next quarter's sales are.* ***What matters is Mpama South and AFM's ability to ramp future production****, which they explained (emphasis added):*
>
> *"The delay in the arrival of the last batch of containers required for the completion of the Mpama South plant is estimated to defer the project's completion by a further month with commissioning now expected from late February 2024 and ore processing from the end of March 2024. The Mpama South underground mine is operational and has commenced with the stockpiling of ore on surface in preparation for a rapid ramp-up during plant commissioning."*
>
> *In other words, Mpama South is running, stockpiling ore, and waiting for the road to open so they can sell it. This is a big deal.* ***AFM is bringing Mpama South online at what could be an inflection point in tin prices.***

The biggest question surrounding AFM now is the escalating violence of the M23 rebellion.

Luckily, we have Will Thomson in our group, and he wrote a great thread on the situation. I highly recommend reading it. Here are the most important parts of the thread (emphasis mine):

> *"This entire conflict is about **the relationship between Rwanda and the DRC,** so you need to first examine the political dimensions of events and evaluate the incentives, constraints, and goals of the political actors. Within that context, **Bisie is an asset of little concern or desire** …*
>
> ***The mine is too far away from M23/Rwandan supply lines, too far away from politically valuable targets**, and given the volume of material that needs to be moved to make money, **not a great target for "pick your random DRC warlord" due to the logistics of operating the mine.** The priority for M23 is Goma (which they cannot hold without overt support from Rwanda) and then the capital of Southern Kivu."*

As I like to say around here, this is mining. It's hard, and things go wrong all the time. Maybe M23 changes its mind and wants to operate a tin mine.

The good news is that we have a decent network with ears to the ground and will quickly exit our position if things get hairy.

We're also looking to add $MLX.AX to our book on a weekly pullback to the midline. It would require a ~20% pullback from current prices (see below).

Looking Ahead: New Copper Name & Koyfin Webinar

I have a huge backlog of names to research and write about in the coming weeks. Two weeks from now, I'm writing about a Sylvania Platinum (SLP.L) copycat in the copper space.

Then, I plan on diving deeper into some small/micro-cap gold/silver and copper developer plays. These stocks are completely left for dead where you're buying pounds in the ground for pennies on the dollar.

But before that, I am excited to announce that I am hosting next month's ***MOHO Idea Lunch Webinar*** next week.

The topic? **My Koyfin Research Process**

Here's all the information:

- ➢ **Date:** Tuesday May 7, 2024
- ➢ **Time:** 12PM EST
- ➢ **Zoom Link:** Register Here

This webinar will show you how I use Koyfin in my investment research process. The goal with Macro Ops is for everyone to use a similar process and speak the same language. We have that with macro trading in the HUD and positioning/sentiment/technical frameworks.

Now, I want to bring that same systematic approach to our investing book.

Please come with questions and comments! There are probably holes in my process that we can fix, which will make all of us better.

Can't wait to see you guys in there!

Until next week.

Your Value Operator,

Brandon