July 17, 2024

THE LONG PULL: 1H 2024 Precious Metals Miners Review

Junior precious metals miners are waking up. That's good because we have 25% of our equity book in PM juniors.

Everyone's talked about how it was "inevitable" that junior miners would slingshot higher.

But I wasn't convinced.

Remember, most junior mining companies are **terrible** investments. They deserve to underperform the metals price. The good ones will work. Maybe this is the week the market starts realizing that …

Humor me, for a second, with two charts. The first is a ratio of GDXJ to gold.

The next one is SILJ to silver.

Notice anything? Both ratio charts are on the **verge of significant breakout reversals.**

Here's why that's important … our PM miners have already outperformed every benchmark and major index despite the above headwinds.

So, just imagine the performance of our basket of companies once every generalist investor realizes they need commodity/mining exposure.

And where will they invest? Probably in the mining stocks that look like what we own – or what I call "good" junior mining companies.

There are a few things that make for a "good" junior mining company:

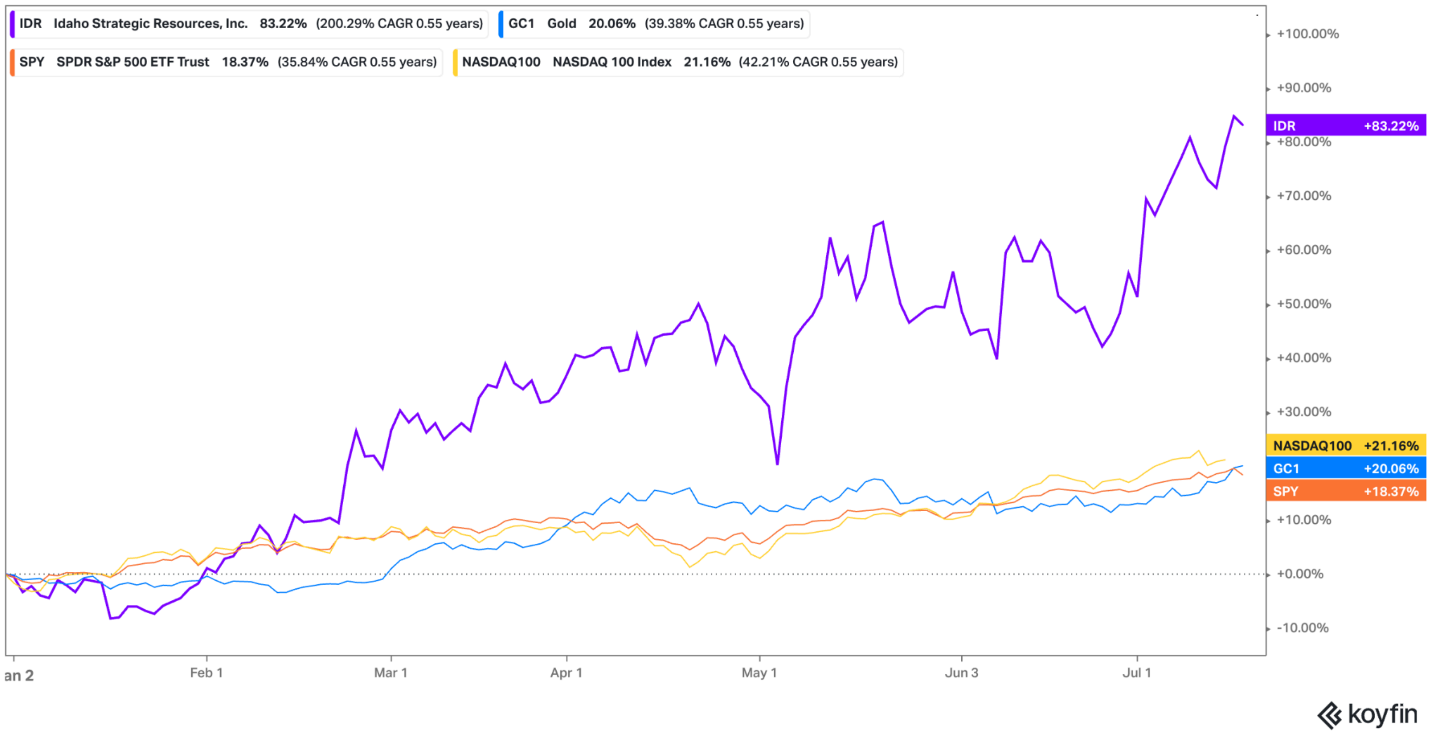
- ➢ Tight share structure (ideally sub 200M shares)
- ➢ Healthy balance sheet (ideally net cash with little-to-no debt)
- ➢ High insider ownership (5%+)
- ➢ Relative outperformance versus its underlying commodity

Our portfolio of junior miners (mostly) meets the above criteria. Let's start with Idaho Strategic (IDR), our gold producer/REE hidden asset play.

- ➢ **Tight share structure:** 13M shares outstanding
- ➢ **Healthy balance sheet:** $5M in cash with zero long-term debt
- ➢ **High insider ownership:** CEO owns 10% of the company
- ➢ **Relative outperformance versus commodity:** +60% over gold

Here's what we wrote about IDR in our original June 2023 report (emphasis added):

> *"IDR plans to grow production from ~5,000oz today to ~20,000oz over the next few years.*
>
> *[CEO] John Swallow built IDR's gold mining operations for $1,200/oz gold with All-In Sustaining Costs (or AISCs) of around $1,300.*
>
> *So, for <$60M market cap, we get a profitable gold mining business in a mining-friendly jurisdiction (Idaho) with secular tailwinds, one of the US's most valuable rare earth deposits, and a die-hard CEO who owns 10% of the company and eat, sleeps, and breathes mining."*



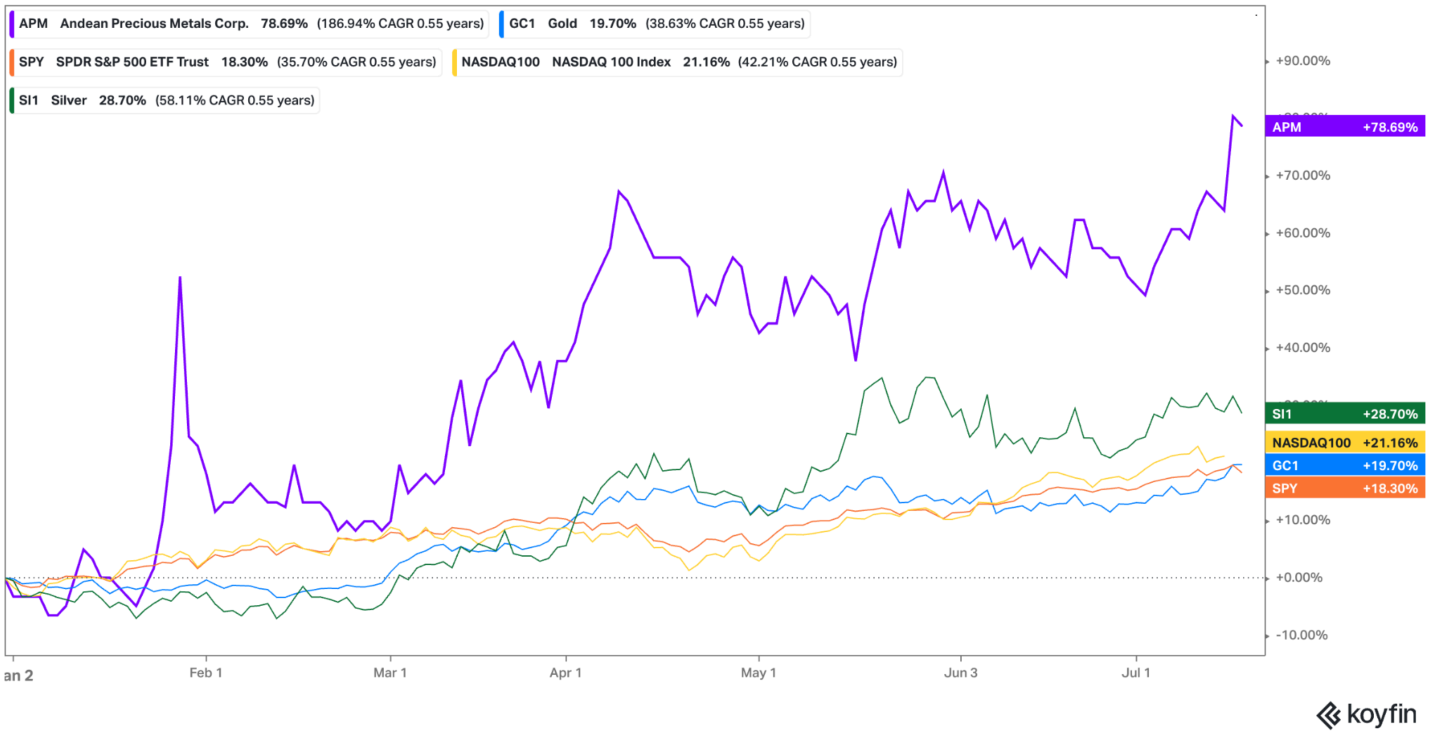
The above criteria can't *guarantee* that a junior miner will outperform. It just tilts the odds in your favor (see below).

IDR is up **83% YTD** versus gold, up 20%, and the SPY and NQs, up 18% and 21%, respectively.

Then there's silver/gold producer Andean Precious Metals (APM.V).

- ➢ **Tight share structure:** 151M shares outstanding
- ➢ **Healthy balance sheet:** ~$20M in net cash
- ➢ **High insider ownership:** Insiders own 70% of the stock
- ➢ **Relative outperformance versus commodity:** +50% versus silver

Again … same criteria … similar performance outcomes.



APM is up **79% YTD** versus silver, up 29%. At the start of the year, there were signs that APM would outperform.

Here's what we wrote in our [initial deep dive](#) (emphasis added):

> *"APM trades at a $119M market cap with a Net Current Asset Value (or NCAV) of $107M. The company has $161M in net cash and equivalents for an Enterprise Value of -$42M.*
>
> *In other words, the market values APM's two producing mines and silver mill at -$42M.*
>
> *Using realistic gold/silver price assumptions, those two mines can generate over $30M in annual free cash flow by 2025.*
>
> *Finally, management owns over 50% of the business and has repurchased stock over the past year ($0.02 above our cost basis)."*

The stock is also approaching a weekly breakout from an 18-month inverse H&S pattern (see below).

Finally, there's [Mineros S.A.](#) (MSA.V) … our small-cap gold producer with assets in Colombia, Nicaragua, and Chile. Let's run the company through our criteria:

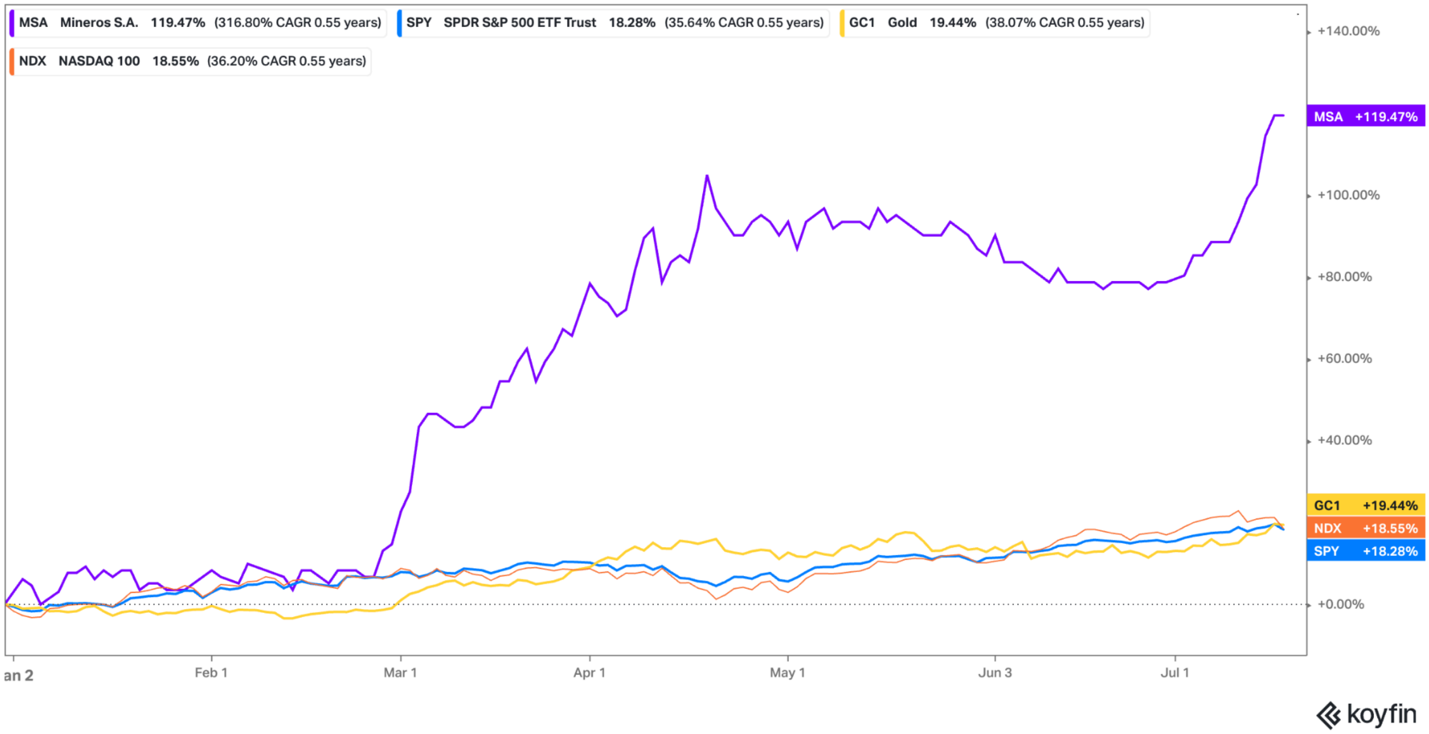
- ➢ **Tight share structure:** 300M shares outstanding
- ➢ **Healthy balance sheet:** ~$24M in net cash
- ➢ **High insider ownership:** insiders own ~46%
- ➢ **Relative outperformance versus commodity:** +100% versus gold

Here's what I wrote in the original MSA.V deep dive (emphasis added):

> *"MSA.V is one of those rare mining stocks with **a clear path to generate 20%+ yields and return 80% or more of your investment within a few years.***
>
> *The company has done everything right.*
>
> *They've **reduced debt, paid dividends, not diluted shareholders, maintained healthy cash balances**, and **sold off high-cost mines.***

At our cost basis of $0.81/share, I'm confident this position will generate at least a 20% return on our investment. And it wouldn't shock me to see yields inflect even higher if gold stays above $2,100/oz."

The stock is up 119% YTD, crushing gold and the major indices (see below).



These three names are part of why we're up ~40% YTD.

I don't want you to think we *knew* these stocks would outperform. We can only position ourselves in names with the *best odds* of outperforming then let the chips fall where they may.

I've seen a lot of hate from other generalist investors on precious metals mining stocks. It's easy to paint an entire sub-sector with a broad brush. And as I mentioned earlier, 99% of these stocks deserve that brushing.

But that's lazy thinking. Mining stocks are like any other company. They have company-specific, industry, and global risks like any other stock.

Mining stocks require investment capital, much like 99% of other stocks. And yes, things can go *very poorly* sometimes … but so can things like Pets.com or WorldCom.

A country can nationalize a mine, but a cyber attack can destroy an internet company just as quickly.

I'm sorry if it sounds like I'm ranting … I'm at the end of my coffee, and the caffeine is finally kicking in.

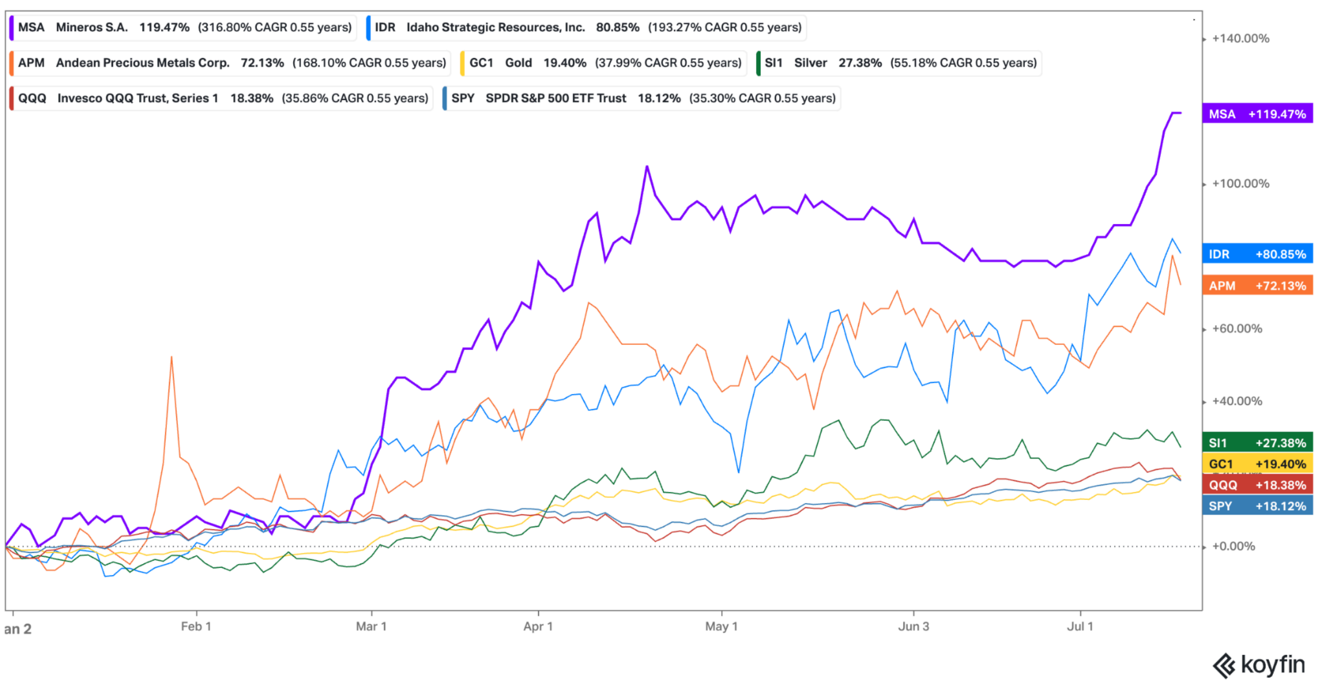
The point is that **an intelligent investor takes an intelligent approach to mining stocks.** That approach always starts with downside protection and a margin of safety.

Each of our above mining companies had *ample* margins of safety.

MSA.V had a 30% shareholder yield, generated 42% of its EV in annual FCF, and had net cash on the balance sheet.

APM.V traded for less than its NCAV despite owning a silver mine that generated $30M in annual profits *and* a newly acquired gold mine that will do ~$25-30M in free cash flow.

IDR had net cash on the balance sheet, low AISCs, and a path toward 20,000oz of annual production for $24M in cash flow (the market cap was $60M when we bought).



If there's anything I've learned since studying metals and mining companies … it's that **great opportunities exist.**

IDRs, APMs, and MSAs are out there for the taking. The opportunities exist because everyone assumes all junior mining stocks are terrible investments.

My job is to take an intelligent approach to mining investing—a strategy focusing on downside protection and margin of safety … where the upside takes care of itself.

We have a repeatable process for finding, valuing, and position-sizing these ideas.

The next decade will be one of the best times to make transformational wealth in metals, mining, and commodities.

And I can't wait to do it with you.

Until next week.

Your Value Operator,

Brandon