



July 03, 2024

THE LONG PULL: Building Confidence in APM.V & Getting More Bullish on PGMs

We've got a short week in markets this week – happy Fourth of July to our US Collective members – so I'll keep this *Long Pull* brief.

First, we discuss APM.V, the recent coup attempt in Bolivia, and the power of optionality in the business.

Then, we highlight more reasons to be bullish on PGMs as major auto OEMs shift their focus from EV investment programs to more profitable and consumer-friendly ICE products. This shift indicates a potential re-rating of PGM developers and producers, giving us reasons to be optimistic about the future of PGMs in the market.

A quick housekeeping note ... we're working on our MO 1H 2024 Portfolio Review. You should see it within the next week.

Alright, let's get after it.

APM.V: Capital Allocation & The Power of Optionality

Andean Precious Metals (APM.V) is our precious metals producer with operations in Bolivia (silver mine and third-party processing) and California (Golden Queen gold mine).

Management continues to impress me with its capital allocation actions. Let's review two recent examples.

First, the company spent all of June buying back stock on the open market (see below).

Date	Issuer	Insider	Transaction	Amount	New Balance (1)
Filed 2024-06-21 10:16 Tx date 2024-06-20	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-27,000 vol	0
Filed 2024-06-21 10:15 Tx date 2024-06-20	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$25,920 +27,000 vol \$0.96 each	27,000
Filed 2024-06-21 10:15 Tx date 2024-06-17	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-32,000 vol	0
Filed 2024-06-21 10:14 Tx date 2024-06-17	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$49,236 +32,000 vol \$0.95 each	32,000
Filed 2024-06-21 10:13 Tx date 2024-06-14	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-8,000 vol	0
Filed 2024-06-21 10:13 Tx date 2024-06-14	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$7,600 +8,000 vol \$0.95 each	8,000
Filed 2024-06-21 10:10 Tx date 2024-06-13	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-10,500 vol	0
Filed 2024-06-21 10:10 Tx date 2024-06-13	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$10,185 +10,500 vol \$0.97 each	10,500
Filed 2024-06-21 10:09 Tx date 2024-06-12	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-11,000 vol	0
Filed 2024-06-21 10:08 Tx date 2024-06-12	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$10,670 +11,000 vol \$0.97 each	11,000
Filed 2024-06-21 10:04 Tx date 2024-06-11	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-56,700 vol	0
Filed 2024-06-21 10:04 Tx date 2024-06-11	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$54,868 +56,700 vol \$0.97 each	56,700
Filed 2024-06-21 10:00 Tx date 2024-06-10	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-107,000 vol	0
Filed 2024-06-21 10:00 Tx date 2024-06-10	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$104,260 +107,000 vol \$0.97 each	107,000
Filed 2024-06-21 09:59 Tx date 2024-06-07	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-22,400 vol	0
Filed 2024-06-21 09:58 Tx date 2024-06-07	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$21,932 +22,400 vol \$0.98 each	22,400
Filed 2024-06-21 09:58 Tx date 2024-06-05	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-500 vol	0
Filed 2024-06-21 09:57 Tx date 2024-06-05	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$485.00 +500 vol \$0.97 each	500
Filed 2024-06-21 09:56 Tx date 2024-06-04	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	-56,000 vol	0
Filed 2024-06-21 09:56 Tx date 2024-06-04	SAPM Andean Precious Metals Corp.	Andean Precious Metals Corp. 1 - Issuer Direct Ownership	Common Shares 38 - Redemption, retraction, cancellation, repurchase	\$55,580 +56,000 vol \$0.96 each	56,000

APM bought back 355k shares from June 4th - June 20th. But it's not just June. The company has repurchased stock **every month this year.**

They are share cannibals.

More importantly, they're repurchasing stock with cash from operations and not taking on debt.

Two weeks ago, the company made another great capital allocation decision. When APM bought the Golden Queen mine, they could pay for it with cash or shares.

On June 17th, the company announced it would pay any remaining Golden Queen obligations with cash, *not* shares.

Andean Precious Metals Elects Not to Pay in Shares



Toronto, Ontario--(Newsfile Corp. - June 17, 2024) - **Andean Precious Metals Corp.** (TSXV: APM) (OTCQX: ANPMF) ("Andean" or the "Company") previously announced on November 27, 2023 that, effective November 24, 2023, Andean, through its wholly-owned subsidiary Soledad Holdings, Inc. ("Soledad"), had signed and closed a transaction to acquire a 100% interest in Golden Queen Mining Company, LLC ("Golden Queen") from Auvergne Umbrella LLC.

Pursuant to the transaction as described in the previous announcement, Soledad may satisfy any remaining payment obligations thereunder in the form of cash or common shares.

Andean has irrevocably elected not to pay any remaining balance of the Golden Queen purchase consideration in common shares of Andean.

That tells me two things:

- 1) Management thinks shares are too cheap.
- 2) The company is generating enough cash from its silver and gold operations.

I love this because it **confirms our belief** that shares are too cheap and **increases my confidence in management's** ability to protect shareholders from excessive dilution.

It reminds me of [what I wrote last month](#) about spotting "tells" on Golden Queen's progress (see below).

"There's an interesting look-through on the recent insider buying, and shoutout to @Karan for helping me notice it this week. Let me explain.

In the most recent quarter, management explained the various issues at the Golden Queen mine (fire, weather, ramping challenges, etc.), which led to higher AISCs. But they also said those were one-time issues, and we'd see "a material improvement in revenue and earnings" going forward ...

Now ask yourself this question ... if APM still had issues at Golden Queen or thought there were more cost overruns, would they have repurchased 337K shares in May? Probably not.

Remember, management owns 50% of this company. Reducing the share count doesn't help them if they let costs explode and generate operating losses (in fact, that's just more losses per share!).

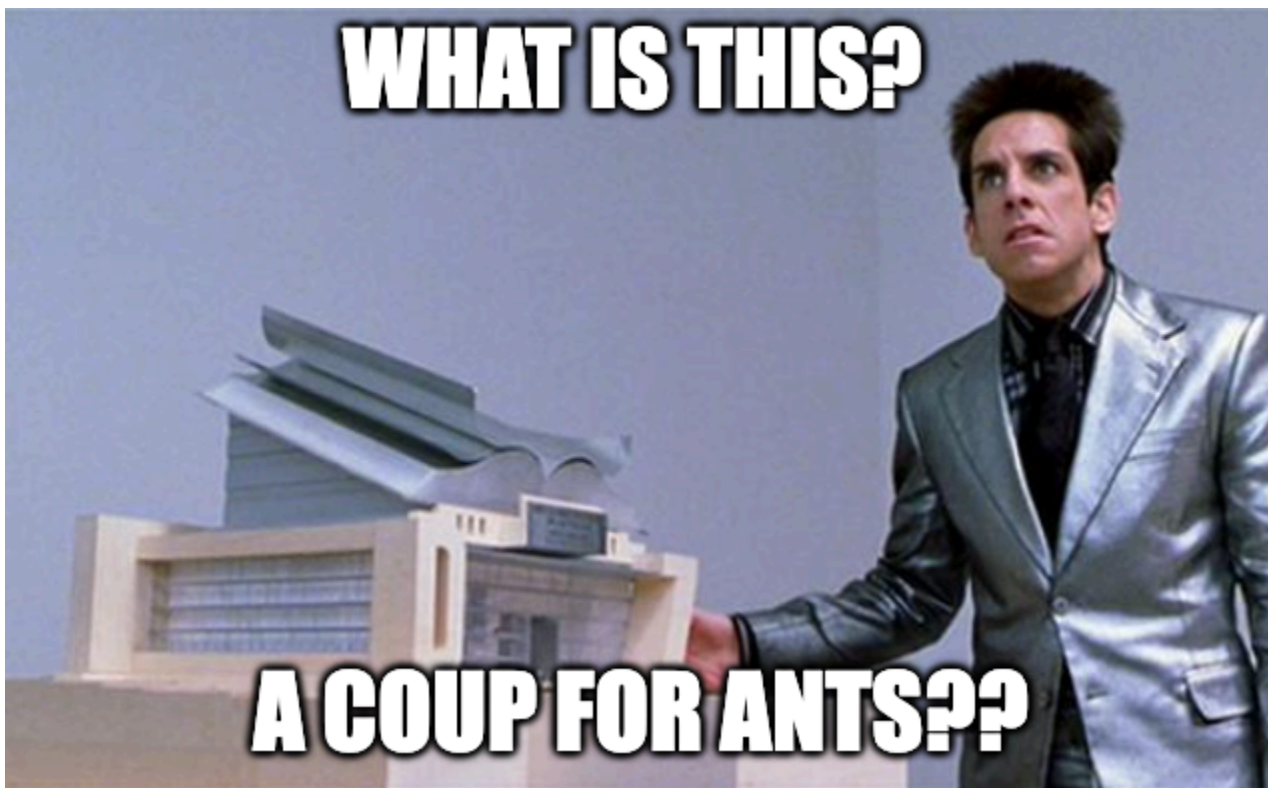
In other words, insider buying is a sign that Golden Queen is progressing and has resolved the cost/fire issues.

Finally, the most recent insider buying round gives us a clear picture of how management allocates capital. If there are still issues at Golden Queen, yet management spent the money buying back stock, that's a red flag. Fix the troubled asset to correct earnings power, then return to buybacks."

If I'm management and know there are still issues at Golden Queen, I'm paying for that mine in shares to preserve cash to solve those problems.

So far, so good from APM management. They're giving me every reason to trust them with our capital.

Now, about that coup ...



Last week, the Bolivian military staged a coup attempt to overthrow the Bolivian president. Or at least I think they did? I don't know ... it lasted like five minutes.

Seriously, I was in Whole Foods when the news broke. By the time I left checkout, it was over.



Matt Kennard ✓

@kennardmatt



What a picture.

Bolivian President Luis Arce has met the leader of the attempted military coup in Bolivia face to face at the doors of the Presidential Palace.



4:46 PM · Jun 26, 2024 · 1.1M Views

Nothing happened ... but it made me think about APM and its Bolivian-based silver business.

A coup attempt in your home country is bad. But it's *less bad* when you have another asset in a different (perhaps safer) country.

APM couldn't have timed its Golden Queen acquisition any better. Let's assume the Bolivian coup worked. What's the worst-case scenario for APM? Nationalization of its silver operations.

The good news is that even if we write down the silver business to \$0, the company still trades at a ~22% FCF yield on its Golden Queen asset (see below).

Unit Economic Model	2024	2025	2026
Silver Eq. Production (Moz)	0.00	0.00	0.00
Avg. Silver Price	\$30.50	\$32.00	\$35.00
Total Revenue	\$0.00	\$0.00	\$0.00
AISCs (\$/oz)	\$21.00	\$21.50	\$22.00
Total Costs	\$0.00	\$0.00	\$0.00
Net Profits	\$0.00	\$0.00	\$0.00
<i>Less Capex</i>	\$4.20	\$4.20	\$4.20
Pre-Tax Free Cash	-\$4.20	-\$4.20	-\$4.20
FCF Yield	-4.43%	-4.43%	-4.43%
Golden Queen Mine	2024	2025	2026
Gold Production (oz)	60,000	61,000	62,000
Avg. Gold Price	\$2,350.00	\$2,500.00	\$3,000.00
Total Revenue	\$141,000,000	\$152,500,000	\$186,000,000
AISCs (\$/oz)	\$1,750	\$1,800	\$1,850
Total Costs	\$105,000,000	\$109,800,000	\$114,700,000
Net Profits	\$36,000,000	\$42,700,000	\$71,300,000
<i>Less Capex</i>	\$10,000,000	\$10,000,000	\$10,000,000
Free Cash Flow	\$26,000,000	\$32,700,000	\$61,300,000
FCF Yield	27.39%	34.45%	64.59%
Total Free Cash Flow	\$21,800,000	\$28,500,000	\$57,100,000
Current EV	\$94,913,110	\$94,913,110	\$94,913,110
FCF Yield	22.97%	30.03%	60.16%

That assumes Golden Queen has no significant issues and generates decent AISCs. But still, there's embedded optionality in APM from this acquisition that helps me sleep better at night.

We have a ~8% notional position and will look to add on positive Q2 results.

PGMs: More Auto OEMs Bail on EV Plans

I don't have much to say here other than major auto OEMs are bailing on their EV investments for more profitable, less risky ICE products.

First, Ford delayed its EV SUV in April, citing weak demand.

COMPANY NEWS | News Wire

1h ago

Ford Delays Big Electric SUV Until 2027 as EV Demand Stays Weak

Keith Naughton, Bloomberg News



, Photographer: Lukas Schulze/Getty Images

[Two months later](#), they said, “Okay, it’s not just the EV SUV ... we’re delaying *all* EVs.”

This was the most telling quote in the article (emphasis added):

*"We will not launch a second-gen [EV] product **unless it's profitable within the first year and we are going to get a return on that capital we're investing,**" chief financial officer John Lawler said. Ford announced plans in April for an electric truck in 2026 and a three-row SUV in 2027, delayed from 2025."*

That means a much longer runway for ICE and hybrids as major auto OEMs build infrastructure and economies of scale to reach their profitability and ROI goals.

Then Volvo joined the party, saying it would slow EV investment as consumer demand stalled in favor of ICE/hybrid vehicles (see below).

The Volvo estate is back: Drivers force U-turn on axe in Britain

Story by Sam Merriman and Rob Hull • 16h • 2 min read

They have ferried generations of Britons to school, on dog walks and holidays in far-flung corners of the country.

So after Volvo announced it would no longer be selling its iconic estate cars in the UK last year, drivers were up in arms.

But it seems the car maker has bowed to customers' demands, as the vehicles are set to return to UK showrooms less than a year after they were axed.

And they will be coming back with hybrid petrol engines under the bonnet, as demand for electric vehicles stalls.



Volvo has U-turned on its decision to scrap its iconic V60 (pictured) and V90 estate cars © Provided by This Is Money

The company, synonymous with Swedish practicality and the highest level of vehicle safety, had blamed poor sales for the decision to ditch both its estate and saloon models.

In the first six months of 2023, Volvo said less than 10 per cent of UK sales are represented by these more traditional body styles.

Christopher Smith of *Motor1* [wrote about Volvo's EV struggles](#) in April (emphasis added):

*“Specifically, **Volvo plug-in hybrids were hot commodities through the end of March.** These models were up 44 percent for the period, totaling 7,118 units. Mild hybrids were up 5 percent, leading the overall sales charge with 8,088 vehicles. **EV sales, however, fell off a cliff.** Just 970 fully electric Volvos were sold for the first three months of 2024, compared to 2,782 last year; **a drop of 65 percent.**”*

Just a few days ago (June 28th), Mercedes-Benz announced that it would cut EV investment, produce more ICE vehicles, and abandon its “fully EV by 2030” goal (see below).

NEWS / NEWS BY BRAND / MERCEDES-BENZ NEWS

Mercedes Is Walking Back Its All-EV Future to Invest in ‘High-Tech Combustion’

Just a few years after “switching from EV-first to EV-only,” Merc says it's throwing its weight behind further ICE development.

This is my favorite quote from the [above article](#) (emphasis mine):

*“The German automaker is **no longer planning to be an all EV brand by 2030**, and is now **pumping millions into further development of internal combustion engines**. Mercedes CEO Ola Källenius tells Wirtschaftswoche that **combustion engines are going to last “well into the 2030s,”** so Mercedes has no choice but to make massive investments into ICE in order to meet stricter carbon emissions rules, according to Motor1.”*

Did you catch that?

“Combustion engines are going to last well into the 2030s.”

Hmm ...

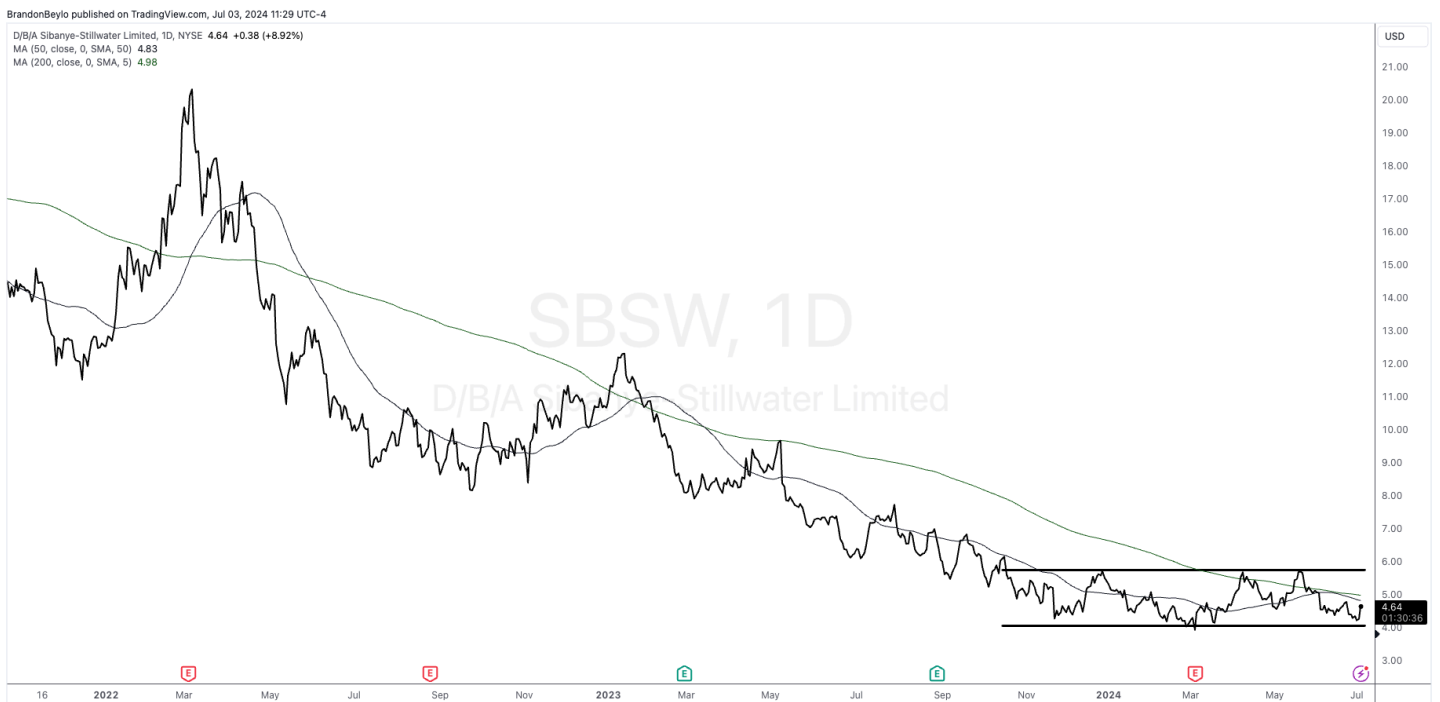
What This Means For PGMs

Over the past 18 months, we’ve heard nothing but: *“ICE engines are dead, EVs are the future, and therefore, the demand for PGM will collapse.”*

In response, investors shrunk their NPV calculations on PGM producers to 2024-2025. But they were wrong.

Those same investors must extend their NPV calculations by 5-10 years, which adds enormous value to PGM producers.

You can feel the changing sentiment. And you can see it in the charts. Check out some of these basing patterns in our favorite PGM names below.



BrandonBeylo published on TradingView.com, Jul 03, 2024 11:30 UTC-4

Sprott Physical Platinum and Palladium Trust, 1D, Arca 10.07 +0.10 (+1.05%)
MA (50, close, 0, SMA, 50) 9.81
MA (200, close, 0, SMA, 5) 9.81



TradingView

BrandonBeylo published on TradingView.com, Jul 03, 2024 11:30 UTC-4

abrdn Physical Palladium Shares ETF, 1D, Arca 95.48 +2.21 (+2.37%)
MA (50, close, 0, SMA, 50) 88.08
MA (200, close, 0, SMA, 5) 94.54



TradingView

Impala Platinum Holdings Ltd., 1D, OTC 5.02 +0.36 (+7.73%)
MA (50, close, 0, SMA, 50) 5.10
MA (200, close, 0, SMA, 5) 4.48



This coincides with a massive short-squeeze potential in physical palladium. Managed money is the shortest it's ever been. Meanwhile, commercials are loading up on the long side (see below).



The PGM trade feels like a Molotov cocktail ready to explode. Think about it:

- 1) The popular narrative of “EVs are the future. We won’t need ICE cars” destroyed PGM prices.
- 2) Low PGM prices eliminated an incentive to increase supply, so all the significant producers closed mines, fired workers, and hunkered down.
- 3) Large speculators played the EV narrative thesis by shorting (in record size) palladium and platinum futures.
- 4) No investor wants to touch a PGM stock trading at its lows.

Auto OEMs are now **blatantly telling you that ICE engines will be around for another 5-10 years!** This destroys the popular PGM narrative and unwinds the above trade.

The result will be a dramatic re-rating of PGM developers and producers. We own Sylvania Platinum (SLP.L) but will add Sibanye-Stillwater (SBSW) if the stock prints a strong weekly bar.

We’re also investigating some North American PGM developers/explorers to gain “double” exposure to PGMs and the reshoring thesis.

There’s so much to do in markets right now. It’s an exciting time to research metals and commodities, and I couldn’t be more excited about the next 3-5 for our thematics.

Until next week.

Your Value Operator,

Brandon