



August 14, 2024

THE LONG PULL: Earnings Update (APM & MSA.V) & Watchlist Failures

Happy Wednesday, Operators! Here's what we got today.

Our two junior precious metal producers, Andean Precious Metals (APM.V) and Mineros S.A. (MSA.V), reported earnings this week.

We analyze each earnings report and update our priors/models with the new information.

Then, we discuss a new workflow to help us avoid missing the next Harrow Health (HROW).

Let's get after it.

Earnings Updates: Andean Precious Metals (APM.V)

APM.V is a multi-asset gold/silver producer. They operate a silver mine in Bolivia (San Bartolome) and a gold mine in California (Golden Queen).

You can read our original write-up [here](#).

Q2 2024 was a "show me" quarter. And the company delivered. Here are the [highlights](#) (on a YoY basis):

- Silver Equivalent (AgEq) ounces sold **increased by 305%** to 2.5Moz
- Revenue **increased by 357%** to \$69.8M
- Gross Profit **increased by 494%** to \$14.5M
- Net Cash From Operations increased from -\$5.3M to +\$13M
- EBITDA **increased by 570%** to \$24.5M (35% margin)
- Total Cash & Equivalents increased by 16% to \$87M

APM exceeded my expectations. The company tripled AgEq production, generated 30%+ margins, and sits with ~\$21M in net cash on the balance sheet.

That last part is critical because APM bought the Golden Queen mine with 85% debt financing (a \$66.6M deal with \$5M upfront cash and another \$5M contingency payment).

So, within a year, APM turned an 85% debt-funded gold mine into a profitable operation and flipped its balance sheet into a net cash position.

Incredible.

Here's a detailed view of this quarter's Golden Queen operation (see below).

| <u>Golden Queen review</u> | | | | | | | |
|------------------------------------------------------------------|--------|--------------|---------|--------|---------------|----------|--------|
| | | Q2 2024 | Q2 2023 | Change | YTD 2024 | YTD 2023 | Change |
| <i>Financial performance (In thousands of US Dollars)</i> | | | | | | | |
| Revenue | | 39,975 | - | - | 63,504 | - | - |
| Mining and hauling costs | | 14,631 | - | - | 29,608 | - | - |
| Heap leach and processing costs | | 8,092 | - | - | 15,344 | - | - |
| Other indirect costs | | 2,489 | - | - | 4,750 | - | - |
| Net inventory movements | | 27 | - | - | (5,466) | - | - |
| Depreciation and amortization | | 6,910 | - | - | 9,133 | - | - |
| Income from operation | | 7,826 | - | - | 10,135 | - | - |
| Site general and admin costs | | 1,860 | - | - | 3,229 | - | - |
| Corporate cost allocated | | 1,036 | - | - | 1,579 | - | - |
| Operating net income | | 4,930 | - | - | 5,327 | - | - |
| <i>Capital expenditures</i> | | | | | | | |
| Sustaining capital | | 3,224 | - | - | 4,333 | - | - |
| Growth capital | | 457 | - | - | 866 | - | - |
| Total capital expenditures | | 3,681 | - | - | 5,199 | - | - |
| <i>Mining</i> | | | | | | | |
| Tonnes ore mined | k dmt | 926 | - | - | 1760 | - | - |
| Tonnes mined | k dmt | 5,800 | - | - | 12,438 | - | - |
| Strip ratio ¹¹ | | 5.26 | - | - | 6.07 | - | - |
| Ore mined grade | Au g/t | 0.66 | | | 0.74 | | |
| <i>Heap leach</i> | | | | | | | |
| Tonnes stacked and processed | k dmt | 1,009 | - | - | 1,775 | - | - |
| Average stacked grade | Au g/t | 0.66 | | | 0.74 | | |
| Contained ounces stacked on tonnes stacked | Au oz | 21,356 | - | - | 40,285 | - | - |
| <i>Production</i> | | | | | | | |
| Silver production | Oz | 156,644 | - | - | 265,131 | - | - |
| Gold production | Oz | 15,035 | - | - | 25,294 | - | - |
| Gold equivalent production ¹² | Oz | 16,986 | - | - | 28,476 | - | - |
| <i>Sales</i> | | | | | | | |
| Silver sales | Oz | 153,028 | - | - | 260,693 | - | - |
| Gold sales | Oz | 15,441 | - | - | 25,563 | - | - |
| Gold equivalent sales ¹² | Oz | 17,348 | - | - | 28,691 | - | - |
| <i>Costs profile per ounce</i> | | | | | | | |
| OCC per Au ounce sold ¹³ | \$/oz | 1,350 | | | 1,460 | | |
| AISC per Au ounce sold ¹³ | \$/oz | 1,752 | - | - | 1,825 | - | - |
| AIC per Au ounce sold ¹³ | \$/oz | 1,782 | - | - | 1,859 | - | - |

Check out the \$1,752/oz AISC. We knew Golden Queen was a higher-cost mine with short-term issues like fire and weather.

But management said they'd fix those issues, and the mine would return to profitability. **And it did.**

Golden Queen produced ~17Koz during the quarter for an annual run-rate production of 68Koz. That's 8Koz *higher* than the company's 2024 production guidance of 60Koz.

Golden Queen will produce ~\$11M in operating profits next quarter at the current production rate and gold price (17Koz * (\$2,400 - \$1,750).

I want to end APM's earnings review with its balance sheet and future capital allocation decisions.

The company has \$21M in net cash on the balance sheet, excluding the \$61M in precious metals inventory (you could argue this is also liquid cash equivalents).

Since the company used all of its NCIB, there are now 149.5 M shares outstanding for a CAD 150M market cap (\$111M in USD).

Subtracting net cash gets you ~\$90M in enterprise value for a company growing production, generating increasing profits, and hoarding cash on its balance sheet.

Let's do some quick estimates for 2025 and assume a ~\$4/oz margin on its silver business, \$2,450/oz gold, and 68Koz in annual gold production from Golden Queen with \$1,750/oz AISCs.

APM would end 2025 with \$53M+ in pre-tax operating profits for a 58% yield on today's EV. Another way to think about it is ~\$0.36/share in pre-tax profits versus the current USD share price of \$0.74.

That cash won't sit on the balance sheet, either. I listened to APM's earnings call this morning and tried to read between the lines on capital allocation.

Here's my interpretation.

Management will renew its NCIB within the next 1-2 quarters for 2.5% - 5% of shares outstanding (versus its previous 10%).

They'll then use the extra cash to buy another operating mine. I have no idea which one they'll buy. However, CEO Alberto Morales said, "*We have enough cash and a strong enough balance sheet to make another transformational acquisition.*"

My gut says they'll buy another US-based mine. As long as the country has less coup risk than Bolivia.

I'm also more excited about an acquisition after seeing APM.V negotiate the Golden Queen deal and manage the early AISC hiccups.

The market liked the report, too. As of this writing, APM stock is up 6%, while silver is down 1%.

We'll increase our position if the stock closes strong this week.

Onto Mineros (MSA.V).

Earnings Updates: Mineros S.A. (MSA.V)

While MSA.V generated higher revenues, gross profit, and EBITDA than the prior year, there are reasons to be concerned going forward.

Here's what I mean.

Revenues increased by 14%, but COGS increased by 22%. So gross profit only grew by 1%. Meanwhile, MSA's average gold price increased by 18% ... but AISCs increased by 24%.

Ouch.

Management mentioned three reasons for the cost increase:

- 1) Higher gold prices paid to artisanal miners (+\$7.82M)
- 2) Higher depreciation and amortization on current operations (+\$1.75M)
- 3) 13% devaluation of USD/Colombian Peso, creating higher prices for maintenance, materials, and labor (+\$5.3M)

The company increased dividend payments by 43% to \$7.43M or \$30M annualized (12% yield).

We're up ~35% in this name and bought our initial stake at a 20%+ shareholder yield.

MSA.V is still on track to hit its 2024 production and cost outlooks (see below).

| | Actual (oz) Six months ended June 30, 2024 | Guidance (oz) 2024 |
|---------------------------------------|-----------------------------------------------|--------------------------|
| Colombia (Nechí Alluvial) | 39,803 | 86,000 - 96,000 |
| Nicaragua (Hemco) | 15,539 | 33,000 - 35,000 |
| Total Company Mines | 55,342 | 118,500 - 131,000 |
| Nicaragua (Artisanal) | 50,102 | 90,000 - 98,000 |
| Total gold production (ounces) | 105,444 | 209,000 - 229,000 |

Given the operating results for the six months ended June 30, 2024, the Company maintains its production guidance for 2024.

Cost outlook

The following table outlines the Company's Cash Cost per ounce of gold sold and AISC per ounce of gold sold for the three months ended June 30, 2024, and cost guidance 2024. The cost guidance includes the Nechi Alluvial Property and the Hemco Property (the "Material Properties") and production from artisanal mining.

| | Actual Cash Cost (\$/oz) | Cash Cost Guidance (\$/oz) | Actual AISC (\$/oz) | AISC Guidance (\$/oz) |
|---------------------------|--------------------------|----------------------------|---------------------|--------------------------|
| Country (principal mine) | 30 June 2024 | 2024 | 30 June 2024 | 2024 |
| Colombia (Nechí Alluvial) | 1,226 | \$1,090 - \$1,190 | 1,434 | \$1,280 - \$1,390 |
| Nicaragua (Hemco) | 1,362 | \$1,240 - \$1,320 | 1,528 | \$1,450 - \$1,520 |
| Consolidated | 1,240 | \$1,180 - \$1,270 | 1,472 | \$1,430 - \$1,530 |

Q3 will be MSA's "show me" quarter. I don't want to make snap decisions based on one quarter's data. However, we have many ideas with higher shareholder yields for recycling our capital.

APM.V may deserve this capital.

MSA is on a short leash. We'll exit the position if we get another poor quarter. Until then, we'll collect our dividends and await management's earnings call tomorrow.

How To Avoid Missing Another Harrow Health (HROW)

I know hindsight is 20/20, and you should avoid putting too much weight on one event, etc.


But this is important.

I'm talking about Harrow Health (HROW). I flat-out missed this stock. Not in the "oh, I wish I had found that before it broke out" sense. But in the "I did the work on this name, put it on my watchlist, told some Collective members about it, and then completely forgot about it" sense.

Which is way worse.

Let's start from the beginning. On September 13, 2022, I pitched HROW to Alex and Octavio. You can read my Slack message below.

September 13th, 2022

 **Brandon** 20:36

such an interesting opportunity. Company is \$HROW. It's \$250M market cap (large enough to write about).

What they do: Eyecare product platform company providing ~40+ SKUs to ophthalmologists.

Why the opportunity exists: Small-cap company with investments in growth/new products hide the core profitability of the company, thus it does not appear on any value screener. Also, it's labeled a "biotech" company, so many investors automatically dismiss the idea.

What's the value: HROW's core business has grown ~72% CAGR over the last seven years. If you back out the investments in new products/growth, the core biz generates ~20%+ profit margins and the biz would trade at a single-digit profit multiple. Currently trades at ~2x sales. Given the stickiness of its customers, FDA barriers to entry, and significant capex investment for new competitors, HROW is competitively advantaged and should command a higher-than-average multiple. Shares should trade between \$20-\$25 by 2024. Current stock price is \$9/share.


What's our downside protection: The company has self-funded its growth and new product expansion. The last time it took outside money was five years ago. It shouldn't need to access capital markets. Management owns a decent amount of stock and is incentivized to see the share price higher (bonus structure). It has ~\$28M in net debt but should generate enough cash to cover the interest payments multiple times over.

Plus its run by the founder that sends detailed shareholder letters every quarter.


There it is, timestamped and everything ... I want to throw up just looking at that.

If that wasn't bad enough, I kept writing about it.

Alexander, Octavio

 **Brandon** Sep 27th, 2022 at 15:05
\$HROW up 25% today

Alexander, Octavio

 **Brandon** Oct 3rd, 2022 at 10:19
\$HROW monthly looks amazing.

And writing about it ...

Alexander, Octavio



Brandon Oct 10th, 2022 at 11:23

And then I still think we should get long **HROW**

Alexander, Octavio



Brandon Oct 10th, 2022 at 11:53

I'd buy **HROW** right now.

Alexander, Octavio



Brandon Oct 10th, 2022 at 11:53

HROW has a much stronger competitive position and insulation from competition.

And writing about it ...

Brandon



Brandon Dec 21st, 2022 at 13:32

https://twitter.com/alpha_bronze/status/1603396965978574849?s=46&t=Soqe14QFZx1DxWFBiQ_LYg

twitter | AlphaBronze

Novartis, busy with its restructuring, sells 5 eye drugs for up to \$175 million to eyecare specialist Harrow! \$NVS \$HROW #pharma #eyedisease

<http://bit.ly/3FRTnuS>

Twitter | Dec 21st, 2022

Alexander, Octavio



Brandon Dec 21st, 2022 at 14:32

@Alexander I wanna buy a tracker position in **\$HROW** today. 1% notional. They are executing on all cylinders. Bought another four eye drugs from ... Show more

I even shared it with the #ideas-equities group, too ...

ideas-equities



Brandon Jul 19th, 2023 at 09:45

Wanted to update you guys on **\$HROW** after yesterday's news.

Basically, the company bought a few more patents/ophthalmic drugs to add ... from larger companies that see the ophthalmic portfolio as a rounding error.

In other words, **HROW** is buying what looks like an immaterial asset from the big boys.

The company gets great deals ... Show more

TradingView



But I never bought a position!



Why? I don't know. I got distracted with another company, shifted my focus to mining stocks, or some other company looked shiny, so I chased it down the alley.

Whatever the reason ... I missed it. And not because I didn't see it but because I **didn't follow a structured process.**

I hung HROW on a watchlist like a childhood toy, never to be played with again.

HROW was a slap-in-the-face reminder that I needed a better process for following up on new ideas.

So, I started with my ever-growing list of watchlists.

| CREATED LISTS | SYMBOLS | | |
|-----------------------------|---------|---------------------------------|------------------------------------------------------------------------------------------|
| ★ Aerospace | 26 | ★ Infrastructure Spending | 14 |
| ★ Agriculture | 12 | ★ Insider Buying | 1 |
| Brazil | 37 | ★ Japan | 70 |
| ★ Buybacks | 6 | ★ Left For Dead | 68 |
| Cannabis | 4 | Long-term Watchlist | 118 |
| ★ Commodity Comparison | 25 | M&A | 13 |
| ★ Commodity Picks & Shovels | 5 | ★ Metals & Mining | 395  |
| Copper | 10 | Mexico | 16 |
| Country ETFs | 46 | ★ Micro/Mini Futures | 30 |
| Crazy Illiquid | 70 | ★ Microcaps | 27 |
| ★ Energy/Ag Ideas | 90 | ★ MO Portfolio | 17 |
| ★ Event-Driven | 10 | Net Asset Plays | 38 |
| ★ Futures VBO/FVBO | 60 | New IPOs / Spin-offs | 55 |
| Industrials | 77 | Oil (Onshore/Offshore) Services | 32 |
| ★ Peter Cundill Stocks | | | 62 |
| Post-Bankruptcies | | | 11 |
| Restructurings | | | 17 |
| ★ Shippers/Tankers | | | 59  |
| Solar Energy/Renewables | | | 19 |
| ★ Standby Names | | | 48 |
| Tungsten | | | 11 |

That's 34 watchlists with anywhere from 5 - 400 names in each list. It's too much bloat. Nobody has time to monitor all of those stocks. No wonder HROW fell through the cracks.

Plus, I've neglected to audit these watchlists regularly. So, instead of constantly trimming each list to *only* my best ideas, I add new shiny objects.

The bad news is that this is the worst way to manage a watchlist of stocks. The good news is that it can't get worse than this, and there are easy ways to improve.

The first step is to schedule "Watchlist Maintenance" time on my calendar ... physically adding it to my calendar. I chose Monday morning.

In other words, I spend 1-2 hours reviewing my watchlists once a week to **reduce the names to only my favorite ideas.**

This brings me to an important question ... **"What constitutes a favorite idea?"**

It's a good question because, to some degree, the point of a watchlist is to say, *"I found this company two minutes ago, and it might be interesting, so let me put it here so I can do more work later."*

If you don't have rules around "interesting," you end up where I am, with 30+ watchlists and thousands of potential ideas.

The solution? Circle of competence.

It sounds obvious, but I have hundreds of ideas on watchlists outside my competence circle. Why? Because they were cheap, or in a country with relative outperformance, or because one of my friends pitched it to me.

There are 50,000+ global stocks. I can spend a lifetime analyzing ideas within my small circle of competence. I don't need to add that Japanese pharmaceutical company or Mongolian IT services business.

Maybe none of this resonates with you because you have a perfect process for identifying new ideas, systematically culling your watchlists, and only focusing on the best situations.

Congrats.

But writing this has helped me identify **where** I need to improve. And it holds me accountable.

Alex and I now have a rule where I check in with him at the end of every Monday to confirm that I've curated my watchlist.

I don't want to lose another Harrow Health (HROW) because of a failed watchlist/research process.

Let me know if you have any ideas on improving this process further. I'd love to make this a recurring conversation.

Until next week,

Your Value Operator

Brandon