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November 13, 2024

THE LONG PULL: Q3 Earnings Recap (APM.V and IDR)

It's Earnings Season! This week, we discuss Q3 earnings from Andean Precious Metals (APM.V) and Idaho Strategic (IDR).

As a reminder, we're currently out of APM and IDR.

The good news is that both companies continue to execute and have become *even cheaper* since we sold. If we're lucky, we'll get a chance to buy back at much lower prices.

Let's get after it.

Andean Precious Metals (APM.V): Record Revenue, Profits, and Cash Flow

Andean Precious Metals (APM) is a producer of Canadian mid-tier gold/silver. APM has two main assets: a silver mine/oxide processing plant in Bolivia and a gold mine in California.

The company reported record Q3 earnings on Monday (11/11). Here are the quick highlights:

- $68.4M in revenue *(record)*
- $17M in free cash flow *(record)*
- $23.4M in operating cash flow *(record)*
- $21.4M in gross profit
- $98.1M in cash and equivalents *(record)*

Let's start with the silver operations.

Historically, APM earned a ~$3-4 spread (or margin) on its silver sales. So if silver were at $30/oz, APM would pay ~$26/oz to its third-party artisanal miners.

APM earned **$12.30/oz in profit this quarter** for a 46% cash margin on its silver business. The company tripled its cash margins during the quarter. That's unbelievable.

APM also raised its San Bartolome (silver operations) full-year guidance to a **$7/oz margin** … or $3/oz higher than initial estimates.

San Bartolome is averaging ~$8/oz in Cash Gross Operating Margin (or CGOM), a 327% increase from last year (see below).

		Q3 2024	Q3 2023	Change	YTD 2024	YTD 2023	Change
Operational Performance							
Mining							
Tonnes mined	k dmt	**-**	390	(100%)	**-**	1,291	(100%)
Average ROM mined ore grade	Ag g/t	**-**	43	(100%)	**-**	46	(100%)
Average +8 mined ore grade	Ag g/t	**-**	78	(100%)	**-**	74	(100%)
Ore purchases							
Tonnes purchased	k dmt	**220**	208	6%	**628**	464	35%
Average purchase grade	Ag g/t	**194**	179	8%	**183**	188	(3%)
Production							
Ore tonnes milled	k dmt	**315**	384	(18%)	**782**	1,144	(32%)
Daily average throughput	dmt	**4,054**	4,474	(10%)	**3,953**	4,499	(12%)
Average head grade	Ag g/t	**131**	128	2%	**147**	118	25%
Silver recovery	%	**83%**	76%	9%	**81%**	78%	4%
Silver production	k oz	**1,118**	1,190	(6%)	**2,981**	3,357	(11%)
Gold production	oz	**680**	640	6%	**1,128**	1,270	(11%)
Silver equivalent production	k oz	**1,176**	1,242	(5%)	**3,077**	3,460	(11%)
Sales							
Silver sales	k oz	**1,080**	1,552	(30%)	**2,948**	3,154	(7%)
Gold sales	oz	**512**	200	156%	**920**	415	122%
Silver equivalent sales	k oz	**1,124**	1,568	(28%)	**3,026**	3,188	(5%)
Cost profile per ounce							
CGOM	$/oz	**12.30**	2.50	592%	**8.00**	1.87	327%
GMR	%	**46.56%**	19.06%	202.8%	**36.03%**	16.50%	118.4%

The company generated $12/oz+ margins at an average silver price of $31.40/oz.

Modeling Q4 Silver Production

Here's how I'm modeling Q4 silver operation … APM reiterated their 5Moz guidance from San Bartolome. That leaves us with ~2.05Moz of production in Q4.

Assuming silver stays around $30-$32/oz, we'd get at least $10/oz+ in CGOM for Q4. That would put **Q4 San Bartolome's operating cash flow at around $21M** (2.05Moz * $10.50/oz spread).

Nearly all that $21M should convert to free cash flow as APM finished spending on its tailings facility.

San Bartolome is a pure cash cow. It's so profitable that it's masking the hiccups at Golden Queen.

Golden Queen: More Hiccups … But Better Days Ahead?

Golden Queen had another troublesome quarter. AISCs increased to $2,300/oz. With an average gold price of $2,413/oz, the mine generated a meager **~$1.6M in operating profits.**

The good news is that management explained the reasons for the AISC increase (emphasis added):

> *"Operationally, it hasn't been without its challenges. At Golden Queen, we faced some setbacks due to* ***necessary maintenance on aging equipment****. We have responded with a* ***proactive CAPEX program*** *to address historical underinvestment in property, equipment, and processes.*
>
> *Since acquiring Golden Queen, we have* ***appointed a new management team*** *and* ***launched a comprehensive maintenance, CAPEX, and operational overhaul program****. This investment in upgrading critical equipment and processes is a deliberate step to drive greater reliability and efficiency, with* ***anticipated results beginning in Q4 and throughout 2025.****"*

APM raised its full-year CAPEX guide to $36M, up from the prior estimate of $24M. But here's the rub: The company will spend at most $24M in cash capex. The remaining $12M in capex will come from vendor financing for heavy equipment, loaders, etc.

When I first heard about the CAPEX raise, I didn't like it. It's mining's version of a slippery slope.

However, here's another way to think about it. San Bartolome is generating enormous cash flow. *This* is the time to push the capex investment in Golden Queen. Do it while you can afford it because your silver business makes so much money.

Q3 is a perfect example of this … APM generated record cash flows *despite* all the issues at Golden Queen.

I'm probably doing the same thing if I'm in management's shoes.

Onto guidance …

The company reiterated its FY guidance of 60-65Koz of gold-equivalent production but emphasized that it would hit the lower end of that range.

Let's assume they end the year with 60Koz of gold equivalent production. That gives us ~18Koz in Q4. At $2,600/oz gold and $1,9500/oz AISC, **Golden Queen would generate $11.7M in operating profits for the quarter ($47M annualized)**.

Looking Ahead: Catalysts?

Management mentioned no specific catalysts besides *"looking for another North American asset to buy."*

Here are the catalysts I'm anticipating in the coming quarters:

- ➢ Uplisting from the TSXV to the TSX
- ➢ Buying another operating mine (will either be Canada or the US … my money is on US)
- ➢ Normal Course Issuer Bid (NCIB) Announcement
- ➢ Special dividend (they have $98M in cash in the bank … they should do *something*)

The stock has cratered since our initial and secondary sales over the past week. Are we (Macro Ops) responsible for some of that volume? Perhaps. However, looking across the precious metals space, most junior producers/developers are getting crushed.

This is good because it gives us another chance to buy at *even lower* prices.

Check out the daily and weekly charts below.

I'm watching the CAD 1.00/share level. That coincides with the 200D MA on the daily chart and the 50D MA on the weekly chart.

Here's how cheap APM would be at CAD 1/share (adjusted to USD):

- ➢ Market Cap: $107M
- ➢ Net Cash: $28M (not including AR or inventory)
- ➢ Enterprise Value: $79M

For $79M, you'd get a company with ~$150M in NAV generating $36M in 2024E free cash flow (45% yield).

Cash flow increases to $66M+ in 2025 if APM controls costs at Golden Queen and reduces AISCs to ~$1,850/oz. That's an 82% FCF yield.

Remember, this doesn't include any potential acquisition, which would **double annual production**.

We're watching from the sidelines and eager to deploy capital back into APM when we get the technical signal.

Idaho Strategic (IDR): Another Great Quarter

Idaho Strategic (IDR) is an Idaho-based gold producer and developer of rare earth elements (REE). Our most recent research on the company can be found here and here.

For newer *Collective* members, here's my TL;DR thesis on IDR:

> *"IDR is the opposite of almost every mining stock I've researched. They prefer to hide under the radar. They avoid mining conferences. They don't overpromote and promise five billion production ounces. Instead, they show up daily without fanfare and execute their business plan. Oh, and they only have 12M shares outstanding."*

The company's business model is simple: generate revenue and profits from current mining operations **and use those profits to fund exploration of gold and rare earth elements (REEs).**

IDR reported Q3 earnings earlier this month. Here are the financial highlights:

- ➢ $6.15M in revenue (86% increase)
- ➢ $2.99M in gross profit (171% increase)
- ➢ $2M in net income (376% increase)
- ➢ $0.15/share in earnings (400% increase)

Operational highlights include:

- ➢ 10,470 ore tons processed
- ➢ 9.32g/t average grade (45% increase)
- ➢ 2,892 ounces produced (45% increase)
- ➢ $1,500/oz AISC (12.53% increase)

It was a great quarter. The company generated $8M in cash from operations (versus $1M in the prior year period) and $7M in free cash flow ($1.1M in property, plant, and equipment capex).

Net cash provided by operating activities	8,104,122
Cash flows from investing activities:	
Purchases of property, plant, and equipment	(1,188,481)

I want to show you this balance sheet.

IDR increased current assets from $4M to $14M, with $8.3M in cash and $3.2M in government securities. Meanwhile, total liabilities increased by $1.7M, from $2.3M to $5M (see below).

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 8,392,556	$ 2,286,999
Investments in debt securities	3,198,452	-
Gold sales receivable	1,054,051	1,038,867
Government grant receivable	418,000	-
Inventories	971,507	876,681
Joint venture receivable	855	2,080
Investment in equity securities	-	5,649
Other current assets	405,267	236,837
Total current assets	14,440,688	4,447,113
Property, plant and equipment, net of accumulated depreciation	11,565,402	10,233,640
Mineral properties, net of accumulated amortization	10,013,290	7,898,878
Investment in Buckskin Gold and Silver, Inc	340,348	338,769
Investment in joint venture	435,000	435,000
Investments in debt securities, non-current	2,940,780	-
Reclamation bond	249,110	251,310
Deposits	842,743	285,079
Total assets	$ 40,827,361	$ 23,889,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 1,366,345	$ 484,221
Accrued payroll and related payroll expenses	445,848	266,670
Notes payable, current portion	802,312	978,246
Total current liabilities	2,614,505	1,729,137
Asset retirement obligations	300,602	286,648
Notes payable, long term	2,117,715	1,338,406
Total long-term liabilities	2,418,317	1,625,054
Total liabilities	5,032,822	3,354,191

The company could retire *all liabilities* with cash on hand and still have ~$6.6M in cash left over.

IDR also tapped its ATM for $7.4M during the quarter. This is an excellent capital allocation decision, with its stock trading around all-time highs during the quarter.

The ATM reinforces a strong balance sheet and allows IDR to expand exploration and production at Golden Chest.

Finally, I want to discuss AISCs. Yes, the company increased AISCs by ~13% to $1,500/oz during the quarter.

However, IDR invested heavily in exploring its properties, which led to the discovery of the Red Star Vein. In other words, AISCs skewed higher due to a *planned* increase in exploration expenses.

Another way to think about it is through Cash Costs. IDR has reduced its cash costs per ounce YoY from $1,021/oz to $857/oz (see below).

	September 30, 2024		September 30, 2023	
	Three Months	Nine Months	Three Months	Nine Months
Cost of sales and other direct production costs and depreciation and amortization	$ 3,155,931	$ 9,268,589	$ 2,195,289	$ 7,114,218
Depreciation and amortization	(485,514)	(1,443,232)	(363,442)	(1,034,521)
Change in concentrate inventory	(204,895)	(94,826)	(46,201)	(83,180)
Cash Cost	$ 2,465,522	$ 7,730,531	$ 1,785,646	$ 5,996,517
Exploration	1,185,460	2,073,364	435,439	916,250
Less REE exploration costs	(54,492)	(212,018)	(150,693)	(485,051)
Sustaining capital	537,697	1,927,153	474,513	1,568,938
General and administrative	203,732	543,851	117,178	504,241
Less stock-based compensation and other non-cash items	2,573	(14,259)	(3,953)	(13,108)
AISC	$ 4,340,492	$ 12,048,622	$ 2,658,130	$ 8,487,787
Divided by ounces produced	2,892	9,025	1,993	5,870
Cash cost per ounce	$ 852.53	$ 856.57	$ 895.96	$ 1,021.55
AISC per ounce	$ 1,500.86	$ 1,335.03	$ 1,333.73	$ 1,445.96

The company also has lower AISCs this year than the prior year on a trailing 9M basis ($1,335/oz versus $1,445/oz).

Mining is a scale business. The more ounces it produces, the more it can spread its fixed costs, resulting in lower AISCs.

So, while costs increase, IDR benefits from scale through increased production (9K ounces in 2024 versus 5.9K ounces in 2023).

<u>When To Re-Enter?</u>

Check out the IDR daily chart below.

The stock is down ~40% from its prior highs and is finding support at the 200D MA. I like buying anything between here and $10/share. The $10/share target would put IDR at the 50D MA on the weekly chart.

As I already mentioned in Slack, I screwed up our first re-entry into IDR by jamming stops too close with too much initial risk.

I see two ways to play it. First, you can buy here and jam a stop below the 50D MA on the daily chart but use small risk… nothing more than 25bps.

The other option is to buy a 1-2% notional position without a stop-loss and see how the price moves. If it holds here or retraces to $10/share, add another 1-2%. Then cut if it breaks below $10/share.

Regardless, I'm hesitant to try IDR or APM again while gold and silver break down. I'm watching the weekly charts on gold/silver. Both are at their midlines in bull quiet/blended bull regimes.

We'll learn a lot about the next few weeks by seeing how gold and silver close and if they give us a bull bar to enter on this pullback.

Until then, stay frosty.

Don't trade the market you wish it were. Trade the one that's in front of you.

Your Value Operator,

Brandon