



TDV Portfolio Q3 Results Update

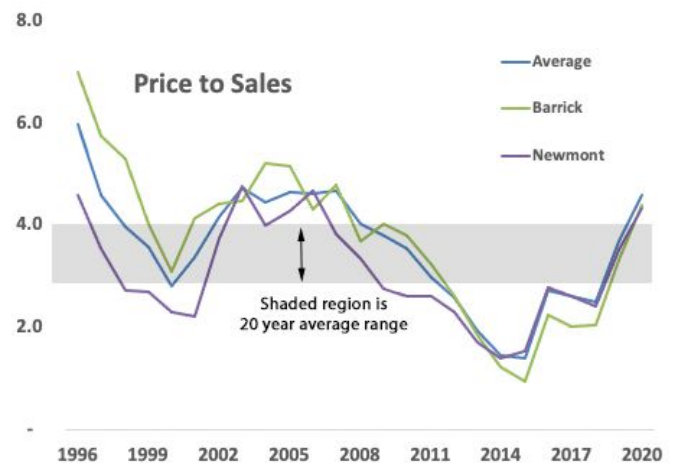
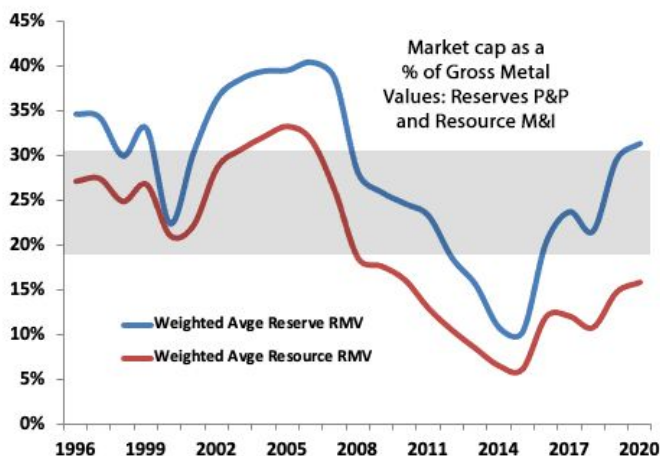
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November 29, 2020

Recommended Action,

Sell to Close Outstanding Hedge: Dec 18 GDX \$39 Puts at \$5 or better

We recommended buying these puts at \$1.86 in September to partially hedge your gold-stock exposure; they last traded at \$5.20 for a 180% gain, covering about 40% of the GDX's decline. The Newmont Puts are up ~100% and were less successful in buffering Newmont's loss of about \$9, but it was still better than not having any hedges. Our view is that the correction is nearing an end, so we recommend taking the gain.



Our comments on the quarterly operating results of the miners in the TDV portfolio follow this review of their valuation in the scheme of things. I will review my model for gold valuation in the newsletter due out in the next day, but suffice it to say that the current correction in the sector has been a healthy one and that the price of the precious metal is closer to the bottom end of its fair market value range than the top end.

The same is bound to be even more true of silver, which is historically cheap relative to gold.

Let me reaffirm my gold price target of \$3k in either the next year or by the end of 2022, and \$5k by 2025, and maybe as high as \$10k potentially this decade if the stagflation genie has come well out of the closet.

I know we talk about the dollar collapse and these sound like conservative targets. They are.

In light of those targets, though, what should we expect from gold shares? For gold itself those would make for returns of between 20 and 40 percent annually through 2025, or even 2030, depending on things we don't know yet. Silver should do increasingly better as it achieves a more normal ratio to gold or overshoots as is typical during the peak stages of a precious metals bull market cycle. **But what about the miners?**

In the graphs above I am revealing two of the many metrics that we track for valuing miners.

I like these metrics because they have a stable base, unlike earnings. P/E ratios are difficult for cyclical companies because they tend to be low at the tops and high at the bottoms. This is for obvious reasons: earnings are cyclical and when they are depressed the PE ratio is high and vice versa.

The graph on the above left is a measure of the market cap of the company relative to the gross metal value of its gold and silver metal inventory, as a percentage. The statistic is essentially an average including two of the world's largest mining companies, each with over a dozen mines all over the world, and also includes Agnico Eagle, which adds another 6 or 7 mines. So the numbers represent a good section of world production.

The first chart tells us that these companies are trading at about 30% (blue line) of the gross metal value of their "reserves" and about 15% of the gross metal value of their "global resource", which means in the former case they are slightly above average valuation and in the latter case they are below their long-run valuations.

The graph above on the right side is a bit more straightforward for most investors.

Since 1995, the S&P 500 index has fluctuated between 1 and 3 times sales - *at 3x recently* - which is historic.

The miners, as you can see, tend to range between about 2x sales up to about 6x sales over the same period, typically, or, say, twice the S&P average. So based on this metric, maybe we can say that the average historic price to sales ratio is somewhere between 3 and 4 times with the current level, a little bit on the high side.

However, those graphs are not updated for last weeks' declines, so whatever the graphs say, it is cheaper today, not greatly but a little bit. We are probably well within the shaded regions of those graphs now.



A third way to look at this question of value is based on the ratio of the popular gold share averages to the price of gold itself, which as you can see in the graph below remains at the low end of its historic range.

The average historic range is probably 0.3 to 0.4. In this case, assuming my gold price targets, the HUI may reach levels of between 900 (at \$3000 gold) up to as much as 4000, or even 5000 if gold goes as far as \$10k.

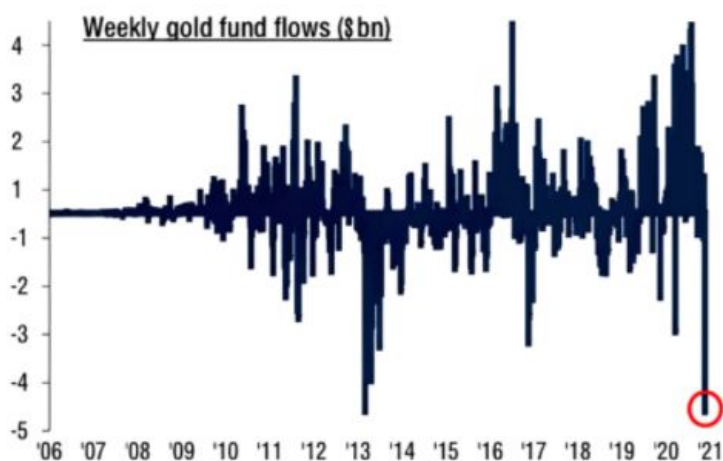
From its current levels of ~280, that could be a triple by 2022 if gold hits \$3k, or 80% per year; and if it hits \$10k by 2030 it still means returns of over 40 percent per year in the HUI. So if our gold price forecast is right then based on this metric we could say that the miners still offer plenty of upside potential if they return between 40 and 80 percent annually, even if only for a few years. Based on this metric since it is still near its lows we can *infer* the potential for less downside, relatively speaking. It is likely they would fall with gold on a 1:1 basis while still having way more leverage on the upside, more so in this metric than the previous two.

However, I ran a model to give us another perspective of value based on my price to sales metric, i.e., assuming we reach my gold price targets with a price to sales ratio falling to a relatively subpar 3.0.

Making some further assumptions for production and share issuances, we were able to forecast share prices at those gold price levels, and from there, expected returns. We found that returns, in this case, would still match or exceed those based on the HUI metric, i.e., that our portfolio could return 50-100 percent per year.

What's more, if we assumed a higher price/sales ratio, like 4x or 5x, as is not atypical during cycle peaks, those returns increase to between 60 and 150% *annually*; even if we only assumed a 2x P/S ratio, we could still expect returns of 20-40 percent per year on our portfolio. Again, that assumes gold hits my targets.

Nevertheless, not bad for what the original metrics suggested as fair value.



Source: BofA Global Investment Strategy, EPFR Global

Just for fun, I ran the same model assuming half those price targets: i.e., if gold prices get stuck at, say, \$1500 for two years, and then maybe rose to \$3000 over five years. I didn't bother to run a deflationary forecast as the likelihood of that scenario is very low and the implications would be obvious. Lots of downsides, on pretty much everything to boot.

And I'd welcome that if the idea was to move toward sound money and less State.

However, assuming gold goes nowhere but down to \$1500 and stays there for two years, which is possible but not likely, we should

expect losses of 10-20 percent per year in the miners until 2022-23, but then gains of 20% plus from there on through 2025 assuming gold hits \$3000 by then. But we are clearly more bullish given our gold and silver price forecasts. I'll defend those in the newsletter. As far as gold shares go, valuations are still very good, and

sentiment has fleshed out nicely in the recent correction, as you can see in the chart of gold mutual fund flows above. We continue to recommend a 30% allocation to the buy & hold TDV Defensive Investors Stock Portfolio, which is mainly made up of gold & silver miners (plus one uranium miner and a few exploration companies). In the following sections, we're reviewing the quarterly operating performance of our holdings.

Quarterly Production Metrics

Company Name	Q3 2020			Q2 2020			Q3 2019		
	Gold Production (Ounces)	Silver Production (ounces)	AISC (\$/oz Au)	Gold Production (Ounces)	Silver Production (ounces)	AISC (\$/oz Au)	Gold Production (Ounces)	Silver Production (ounces)	AISC (\$/oz Au)
Newmont	1,541,000		1,020	1,260,000		1,097	1,640,000		987
Agnico Eagle Mines	492,693	898,000	1,016	331,064	599,000	1,142	476,937	1,092,000	903
Pan American Silver	116,900	4,100,000	1,057	96,600	2,800,000	1,015	150,200	6,700,000	920
Iamgold	159,000		1,206	155,000		1,189	187,000		1,118
B2Gold	263,813		785	241,593		712	258,200		807
Yamana Gold	201,772	3,040,341	1,096	164,141	2,007,809	1,125	209,923	2,484,155	1,039
McEwen Mining	30,400	1,166,000	1,713	19,190	732,600	2,719	35,043	947,146	1,272
Premier Gold	19,278	50,576	965	4,765	567	1,207	16,484	37,856	1,354
Endeavour Silver	10,260	942,274	17.48	5,817	596,545	14.91	9,716	948,547	21.53
SSR Mining	88,972	1,280,000	1,034	49,918	366,000	1,733	32,345	1,664,000	1,155
Fortuna Silver Mines	12,971	2,127,746		7,099	1,273,922		11,436	1,937,293	
Argonaut Gold	47,112	132,196	1,041	30,091	95,796	1080	43,460	70,503	1,134
Endeavour Mining	244,000		906	148,998		939	180,769		803

Quarterly Financial Metrics

Company Name	Q3 2020			Q2 2020			Q3 2019		
	Net Income (\$ Mil)	Op. Cash Flow (\$ mil)	EPS	Net Income (\$ Mil)	Op. Cash Flow (\$ mil)	EPS	Net Income (\$ Mil)	Op. Cash Flow (\$ mil)	EPS
Newmont	839.0	1,596.0	\$ 1.04	344.0	644.0	\$ 0.43	2,178.0	791.0	\$ 2.65
Agnico Eagle Mines	222.7	462.5	\$ 0.91	105.3	162.6	\$ 0.43	76.7	349.2	\$ 0.32
Pan American Silver	65.3	114.9	\$ 0.31	19.4	62.8	\$ 0.10	38.9	37.7	\$ 0.18
Iamgold	(11.6)	105.1	\$ (0.02)	61.2	27.3	\$ 0.05	(1.2)	51.8	\$ (0.01)
B2Gold	263.0	300.8	\$ 0.25	138.0	238.1	\$ 0.12	65.6	167.8	\$ 0.05
Yamana Gold	55.6	215.0	\$ 0.06	-	92.2	\$ -	201.3	157.4	\$ 0.21
McEwen Mining	(9.8)	(25.3)	\$ (0.02)	(19.8)	(20.1)	\$ (0.05)	(11.5)	(21.9)	\$ (0.03)
Premier Gold	1.6	3.3	\$ 0.01	(14.1)	(13.6)	\$ (0.06)	(4.1)	8.6	\$ (0.02)
Endeavour Silver	0.451	15.6	\$ -	(3.3)	(0.9)	\$ (0.02)	(6.80)	(5.27)	\$ (0.05)
SSR Mining	25.1	44.1	\$ 0.19	(6.3)	21.8	\$ (0.05)	18.1	52.5	\$ 0.17
Fortuna Silver Mines	13.1	45.5	\$ 0.07	(5.7)	3.40	\$ (0.03)	(7.7)	18.2	\$ 0.04
Argonaut Gold	18.7	29.0	\$ 0.05	1.2	11.76	\$ (0.04)	4.9	17.2	\$ 0.03
Endeavour Mining	68.0	201.88	\$ 0.36	(22.6)	57.42	\$ (0.34)	(23.5)	96.4	\$ (0.29)

Valuation Metrics

Company Name	CFPS (2020E)	Share Price	P/CF (2020E)
Newmont	5.73	56.97	9.9
Agnico Eagle Mines	4.94	62.49	12.7
Pan American Silver	1.86	28.65	15.4
Iamgold	0.63	3.28	5.2
B2Gold	0.86	5.33	6.2
Yamana Gold	0.58	5.06	8.8
McEwen Mining	NA	0.937	
Premier Gold	NA	2.46	
Endeavour Silver	0.14	3.23	23.1
SSR Mining	0.77	17.24	22.3
Fortuna Silver Mines	0.81	6.02	7.4
Argonaut Gold	0.54	2.24	4.2
Endeavour Mining	3.68	22.34	6.1

Overview

The Q3 results on average were obviously going to be better than Q2 results this year. Recall in the Portfolio Update published March 23, we mentioned the coronavirus impact on operations of the portfolio companies.

TDV Holding (Company / SYM)	Covid-19 Impact on Operations
Agnico Eagle Mines (AEM)	-Shutdown: Goldex, La Ronde, Canadian Malartic until April 13 -Reduced Operations: Meliadine, Meadowbank
Iamgold (IAG)	-Shutdown: Westwood
Yamana Gold (AUJ)	-Shutdown: Cerro Moro, Canadian Malartic
Newmont (NEM)	-Shutdown: Musselwhite, Eleonore, Cerro Negro, Yanacocha
Cameco (CCJ)	-Shutdown: Cigar Lake
Pan American Silver (PAAS)	-Shutdown: Shahuindo, La Arena, Huaron, Morococha, Manantial Espejo -Reduced Operations: San Vincente
B2Gold (BTG)	-Shutdown: Masbate
McEwen Mining (MUX)	-Shutdown: San Jose, Black Fox, Gold Bar
Fortuna Silver (FSM)	-Shutdown: Possibly Caylloma -Lindero construction halted
Sabina Gold & Silver (SBB.TO)	-All exploration activities halted
Premier Gold Mines (PG.TO)	-Exploration halted at Hasaga

Almost all mines were re-started in Q3, and the producers ended up selling increased production into a rising gold price environment. The average net income and operating cash flow increased 150% over Q2 2020, but it also increased similarly over the prior year as the gold price gain was even heftier from the year-ago period.

With the exception of McEwen Mining, the mid-tiers swung back to profitability. Endeavour Mining had its best quarter in this cycle, a consequence of operating in lockdown-free West Africa, while Pan American Silver was hard hit by the restrictions in Peru and Argentina. Agnico Eagle was least affected.

The company estimates that covid protocols have added a mere \$6 per gold ounce to its production costs. With producers' average AISC still under \$1100/oz, the miners have a >60% operating margin, the perfect storm for this group and one huge reason that the HUI should be trading higher next to gold.

Their multiples have already dropped significantly despite the 175% increase over the past five years, which by the way works out to a 22 percent annual gain with gold rising about 80-90 percent in that period.

Within a year at this rate, the miners will accumulate significant cash on their balance sheet and concerns over their debt load, if any, will be a thing of the past. In the last cycle, the gold miners got a bad rap for using their cash flow to make acquisitions at high premiums and focusing on growing production. This time around, however, growth has taken a backseat and managements are rewarding shareholders through buybacks and dividends. Among our portfolio holdings: **Newmont, Agnico Eagle, Pan American Silver, B2Gold, and Yamana Gold** raised their dividends. **SSR Mining** declared its maiden (first) dividend of 5 cents per share and **Endeavour Mining** declared its maiden dividend of 48 cents per share.

TDV Portfolio Holdings, Highlights

Newmont (NEM, MCap \$47B, 803.36M SO) maintained its 2020 production guidance of 6 million gold ounces at an AISC of \$1015/oz, plus an additional 1 million gold equivalent ounces from silver and other by-products, suggesting an operating cash flow of up to \$7 billion this year. That's almost \$8 per share, though our forecast is a bit more modest (tables below).



Newmont expects to maintain its current production profile over the next decade, with new projects making up for depletion at existing mines.

Agnico Eagle Mines (AEM, MCap \$15.7B, 242.35M SO) maintained its 2020 production guidance of 1.68 to 1.73 million gold ounces at an AISC of \$1050/oz.

Pan American Silver (PAAS, MCap \$6.16B, 210.17M SO) continues to experience operational difficulties due to Covid-19 restrictions.



Of its 9 producing mines, 7 were operating with limited workforce levels while the remaining two were shut down in July due to high incidence of covid among the workforce. As a result, management slightly lowered its 2020 production forecast to 18-19 million silver ounces and 525-575,000 gold ounces.

Iamgold (IAG, MCap \$1.58B, 471M SO) reported a GAAP net loss of \$11.6 million (negative 2 cents) and adjusted net income of \$52.1 million (11 cents). The adjustments include debt refinancing costs (\$39.5 million), direct covid-19 compliance costs (\$10.4 million), Rosebel temporary suspension costs (\$7.9 million) and derivative losses. The company is profitable at the mine operating level, reporting \$41.5 million in operating earnings on revenue of \$335.1 million, for a margin of 12.4%. Meanwhile, capex financing for the Côté gold project is secure and pre-production activities continue to advance it. Unfortunately, the Westwood mine was shut down at the end of October due to yet another seismic event and the company has withdrawn its 2021 production guidance. It's difficult to evaluate the future of that project at the moment but will keep posted.



B2Gold (BTG, MCap \$5.67B, 1.05B SO) maintained its 2020 production guidance of 1-1.05 million gold ounces at an AISC of \$800/oz. B2's low-cost base is driven by its Fekola mine in Mali, which is expected to contribute 605,000 ounces at an AISC of \$575/oz. It is the most undervalued among the producers, selling for a P/E of 9.1 and P/CF of 6.6 on a TTM basis. And this for a company that rarely fails to deliver both cash flows and earnings - being one of the few that were able to produce positive operating results through the 2013-15 downswing.

The present discount on this stock is unusual and largely due to political risk in jurisdictions where B2Gold operates. The sale of its two Nicaraguan mines to **Calibre Mining (CXB, MCap \$737.9M)** was partly (in my opinion) made to address this concern, but the recent political unrest in Mali continues to weigh on this stock also, given the market's memory of the 2012 debacle. But this is not the first political crisis that B2's management team has handled. It tends to form positive relationships with governments where it operates.

In fact, there might even be *lesser risk* in Mali, which did not order any mine shutdowns during the plandemic, than in the supposedly safe jurisdictions. B2Gold remains an attractive buy at current levels.



Yamana Gold (AUJ, MCap \$4.88B, 952.62M SO) slightly increased its 2020 production guidance to 915,000 gold equivalent ounces. The company also acquired **Monarch Gold (MQR.TO, MCap \$157.54M)** for C\$152 million in cash and shares. The acquisition adds to its exploration portfolio around the 50%-owned Canadian Malartic mine (AEM holds the other 50%). Management also indicated that they are evaluating further exploration assets in Canada, Argentina, Brazil, and Chile. The company decreased its net debt to \$619.1 million.

McEwen Mining (MUX, MCap \$400.7M, 408.84M SO) is working on an updated mineral resource estimate and feasibility study on its Gold Bar mine in Nevada, due by year-end. The company is also working on a PEA on its Black Fox complex which will incorporate the Stock, Grey Fox, and Lexam deposits.

Premier Gold (PG.TO, MCap \$607.73M, 237.4M SO) has swung back to profitability, driven by significant cost-cutting at its Mercedes mine in Mexico which implemented a new mine plan focused on mining higher-grade ore and cutting throughput. The new mine plan decreased production by 15% but lowered AISC by 35%, resulting in higher margins and improved profitability. The company expects to publish an updated technical report on its Hardrock project (50% owned) by year end. Premier Gold also reported drill results from the Hasaga project in Red Lake. The exploration program saw 23,795 metres drilled in 28 holes, with cores from most drill holes containing visible gold. Highlights: 13m of 4.93 g/t Au;

3m of 76.12 g/t Au, including 0.4m of 455 g/t Au; 13m of 4.93 g/t Au; and 5m of 26.82 g/t Au, including 1m of 129.08 g/t.



Endeavour Silver (EXK, MCap \$538.55M, 157.47M SO) announced a US\$60 million at-the-market offering of common shares. The company will use the proceeds to advance the Terronera project to the feasibility stage and continue exploration activities at its Parral project.

SSR Mining (SSRM, MCap \$3.87B, 219.36M SO) completed its acquisition of **Alacer Gold (ALIAF)** on September 16 in an all-share deal where 1 Alacer share was converted into 0.3246 SSRM shares.

Fortuna Silver Mines (FSM, MCap \$1.15B, 184.2M SO) announced the first pour at its Lindero gold mine in Argentina on October 20. Commercial production is expected in Q1 2021.

Argonaut Gold (ARNGF, MCap \$514.41M, 292.95M SO) completed its acquisition of Alio Gold, which owns the Florida Canyon mine in Nevada.



The company expects to begin construction at its Magino project in Ontario early next year.

Endeavour Mining (EDVMF, MCap \$2.72B, 163.04M SO) is acquiring **Teranga Gold (TGZ.TO, MCap \$2.3B)** for \$2.44 billion, exchanging 0.47

Endeavour shares for each Teranga share. The deal represents a 5.1% premium. Teranga operates the Sabodala-Massawa mine in Senegal and the Wahgnion mine in Burkina Faso, expected to produce 533,000 ounces of gold per year at an average AISC of \$785 per ounce over the next five years. The combined entity, which will be 66% owned by Endeavour shareholders, is expected to produce 1.5 million gold ounces a year.

Concurrently, Endeavour will raise \$200 million from Endeavour's strategic shareholder, the La Mancha group. It reported a 108% increase in Indicated resources at its Fetekro project, growing it from 1.2 million oz to 2.5 million oz at a grade of 2.4 g/t. An updated PEA on the project is due by year end.

TDV's Premium Defensive Investors Long Term Stock Portfolio and Returns*

Company	Symbol	2020 Open	Last Price	YTD Return	2019 Return
Gold/Silver Majors (40%)				17.76%	32.66%
Agnico Eagle Mines	AEM	62.08	64.47	3.85%	52.20%
IAMGOLD Corp*	NYSE:IAG	3.78	3.34	-11.64%	1.36%
Yamana Gold	AUY	4.01	5.11	27.43%	66.67%
Newmont	NEM	43.55	58.48	34.28%	27.23%
Cameco	CCJ	8.9	10.13	13.82%	2.06%
Pan American Silver	PAAS	23.96	29.12	21.54%	42.28%
B2Gold	NYSE:BTG	4.05	5.47	35.06%	36.86%
Junior Producers (45%)				20.84%	33.62%
SSR Mining*	SSRM	16.36	17.65	7.89%	NA
Argonaut Gold	ARNGF	1.45	1.77	22.07%	31.86%
Endeavour Mining*	EDVMF	19.19	22.75	18.55%	17.19%
McEwen Mining*	MUX	1.31	0.98	-25.19%	-30.60%
Fortuna Silver	FSM	4.12	6.28	52.43%	11.17%
Endeavour Silver	EXK	2.44	3.42	40.16%	-5.86%
Premier Gold Mines	TSE:PG	1.97	2.56	29.95%	20.86%
Explorers / Emerging Producers (15%)				30.50%	11.01%
Sabina Gold & Silver	TSE:SBB	1.94	2.42	24.74%	51.18%
Alexco Resource Corp	AXU	2.37	2.46	3.80%	34.88%
Cascadero Copper	CVE:CCD	0.02	0.03	50.00%	-33.33%
EMX Royalty	NYSE:EMX	1.69	2.94	73.96%	43.48%
Mexican Gold	CVE:MEX	0.1	0.1	0.00%	-41.18%
Total Return				21.06%	29.85%

* Note: SSR Mining was added to the portfolio on closing of its acquisition of Alacer Gold in September 2020, giving us a total gain of 210% on Alacer's shares (acquired at \$3.10 in 2013). The red highlighted rows indicate positions that are still recommended but that we are reviewing at the moment. They may or may not result in a sale as a result.

Good trading!

Ed & Kashyap

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