

Global Analyst

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In today's Bulletin, we look at some quarterly results, as well as other recent developments, from companies on our list. There are some good buys, thanks to market overreactions.

PAN AMERICAN ADDS SILVER, AMID MINE RESTART DELAYS

Pan American Silver (PAAS.NY, 22.74) saw two developments this past week or so, one reasonably positive, the second, not so. First, immediately after their quarterly analyst call, the local indigenous group near the shuttered Escobal mine in Guatemala put out a statement rejecting the reopening of the mine.

When the mine was ordered closed under previous operators, the court ordered the government to undertake consultations with local groups, since the consultations required under local mining law had not taken place. Pan American subsequently acquired the mine, in 2019, saying it was prepared to be patient. The government, as well as Pan American (first as an observer, then as a participant), has been involved in consultations with local groups for years now.

The government is in favor of the mine restarting, but both it, and particularly, Pan American, want local approval before it does. Previous statements from the group had not been so adamantly against the mine, but did say the government was frustrating the process while also, perversely, attacking Pan American for its social initiatives in the area. The company said the consultation process is continuing.

Pan American buys MAG, adding silver

Then last week, Pan American said it had agreed to buy MAG Silver, primarily for its minority interest in the Juanicipio silver mine. The price paid is considered a full price, and is dilutive for Pan American. But there is a strategic rationale; Pan Am's aim with this acquisition is to increase its silver production, currently only about 18% of its total production, up to around 22% at current prices, modest but a start, while also reducing AISC for the silver segment. The boost to silver production is helpful in light of the protracted delay in restarting Escobal. The mine plan at Juanicipio indicates a 13-year life, with both output and grades declining over time. Given the need for Mexican approvals, as well as shareholder votes, the transaction is not expected to close until the second half of the year.

Right now, without any of its large pipeline projects coming on board (La Colorado Skarn and Navidad, in addition to Escobal; see Bulletin #961) or any other acquisitions,

Pan American's production is expected to decline by nearly 35% by the end of this decade. So on balance, this is a positive acquisition for Pan American.

However, the combination of the further delay at Escobal and the dilution in the acquisition, amid weakness in the precious metals, saw Pan American's stock price down sharply, nearly 20% in the past week. We think it is a good buying opportunity.

Metalla is at inflection point, with increasing revenues ahead

Metalla Royalty (MTA.NY, 2.83) saw weaker-than-expected first-quarter sales, as heavy rainfall and maintenance downtime hit production at the new Tocantinzinho mine. Lower G&A expenses helped to offset the lower sales, and the company reported positive cash flow and reiterated its full-year guidance.

As we have written many times, Metalla has several mines ramping up or coming onstream over the next couple of years, which should result in higher GEOs in the second-half of this year, and further growth next year. Although this year and last has been a little slower than hoped, we are at the inflection point for Metalla, where revenue begins to ramp up meaningfully and from several mines. It should be able to reduce its debt meaningfully, and perhaps later even start to buyback shares; it paid down C\$2 million in accrued fees and interest on its debt in the past quarter. The company has \$9 million in cash, and about \$17 million outstanding on its line of credit.

The stock is trading at only half of its NAV. It is a strong buy.

Altius struggles with selling great royalty

Altius Minerals (ALS, To., 26.58) reported first-quarter financial in line with expectations after it had pre-released royalty income (see Bulletin #957). Although revenues from the renewables segment fell, both from the previous quarter and year-on-year, as noted earlier, Altius said they were up after excluding special items from last year. It also reported lower G&A expenses.

Silicon royalty decision to come this quarter

Following the sale of Orogen's 1% Silicon-Merlin royalty, giving a look-through value on Altius' 1.5% royalty of north of \$500,000—over 40% of the company's market cap—it was somewhat cagey in discussing its expectations for the possible disposition of its royalty, with CEO Brian Dalton saying that they had not yet decided. He did say that the company had received “a wide range of values and structures” from companies wanting to acquire it. In addition to the normal valuation and strategy considerations, Altius would pay tax on any sale. Dalton said a decision would be made this quarter. Altius has made its submission to the Arbitration Tribunal on claims that were not decided in the earlier ruling, hoping for a final ruling soon. The claims, though not critical, would add some value to Altius' royalty to the extent decided in its favor.

Altius also said that it had formally advanced to the detailed proposal phase in the Julianne Lake iron ore process conducted by the province of Newfoundland. Altius has multiple claims around the Julianne Lake deposit; its drilling has confirmed that the deposit continues onto its claims, so even if it does not win the process, it still stands to

gain over the long term. During the quarter, it made a modest C\$2 million payment on its credit facility, and repurchased only a small number of shares.

Once past the formal part of the company's Annual General Meeting, there were some interesting discussions, including Chad Wells' comments on prospect generation, and in particular Dalton's superb presentation on the state of commodity markets, which is [well worth watching](#); there are some excellent graphics on the market.

Altius is a core holding for us; this presentation reinforces why. Buy.

Strong gains at Gladstone see higher NAV and special dividend

Gladstone Investment (GAIN, Nasdaq, 14.70) had a strong quarter after investment sales raised more cash than expected. Adjusted net investment income was up on the full year (Gladstone's fiscal year ends March 31st), covering its dividend. Although the fair value of its portfolio fell, this was due to one large sale. Following a strong year of originations, the company described the M&A market in its segment as still strong; it has a couple of new acquisitions expected to close shortly.

The number of companies on non-accrual remained static, although Gladstone said three of those four companies had returned to profitability and were anticipated to be able to resume payments on their loans by year end. Net Asset Value increased 25 cents to \$13.55 per share. During the quarter it raised \$126 million in notes, and increased the credit facility, boosting its liquidity position. The company has spillover income of \$1.50 per share, sufficient to pay its monthly 8 cent dividend for the next year as well as its special dividend from capital gains scheduled for June. The stock is trading at a 10% premium to NAV with a projected yield, including June's special dividend, of over 10%. Given the strong stock move over the past week—partly accounted for in the upcoming special dividend—we are holding.

Mali wants to run Barrick's mine

Barrick Mining (B.NY, 17.83) received word that a Malian court hearing on a government bid to put Barrick's Loulo-Gounkoto mining complex under provisional administration has been postponed to May 22nd. The mine has been closed after the military junta stole a stockpile of ore and jailed Barrick employees amid a dispute over back taxes and future revenue split. Barrick remains a buy.

TOP BUYS this week, in addition to above, include **Fortuna Mining** (FSM.NY, 5/39); **Orogen Royalties** (OGN, To. 1.80); **Midland Exploration** (MD, To., 0.31); and **Fox River** (FOX, To., 0.59).

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