Adrian Day's

Global Analyst

Issue No. 663, 2 pages 19th August, 2017

In this bulletin, we review recent developments at three more of the resource stocks on our list, including one of our all-time favorites.

HARD SLOG IN INDONESIA, EXCITEMENT IN QUEBEC

Freeport-McMoran (FCX, NY, 14.15) continues to perform well operationally, and make great strides in cutting its debt, now just above $10 billion, down almost 50% from its peak following the ill-fated acquisition of oil and gas assets. The company has strong assets and a good pipeline; it will cut capex again next year—down over 30% since 2016—to further strengthen its balance sheet.

Can they reach agreement?

The major issue now is the drawn-out negotiations with Indonesia over the future of the Grasberg mine. The government wants Freeport to sell a majority of its mine to local interests; build an expensive smelter; all the while preserving its current tax receipts. Freeport has demonstrated flexibility but wants to remain operator, and wants a long-term agreement, to 2041, to provide the stability necessary for it to make the huge capital expenditures required in the short-term.

It is willing to sell part of the mine to local interests—it had suggested 30%--but wants any sale done on market terms. Under a previous agreement, Freeport has already agreed to sell half the mine to Rio Tinto, so the mine will become less central to the company if both sales are completed.

We are favorably disposed to copper, particularly over a five-year period, as the boost in production from new mines in the early part of the decade dissipates and there is a lack of major new projects in the pipeline. Freeport has world-class assets, good operations, and a strong pipeline. Given the large price increase over the past two months, nearly 30%, we would wait before buying again, but would buy on significant weakness.

Goldcorp still lags, despite lofty goals

Goldcorp (GG, NY, 12.87) continues to underperform its peers. It has a plan to increase production and reserves, and cut all-in sustaining costs, each by 20% by 2021--a noble goal! But in the last quarter, production is broadly only stable, as are costs. Production for 2017 and 2018 is expected to decline, meaning an even greater increase must be shoehorned into the last three years to meet its goals.

The company also wants to reduce its debt, and sustain its dividend, but debt has continued to increase even as the company has less than $100 million in cash, and is not generating free cash flow. Meanwhile, proceeds from the sale of marginal assets (Los Filos and Cerro

Blanco) were reinvested in the controversial acquisition of Exeter and joint-venture in the high Andes with Barrick.

So there is work to be done in meeting its goals. Goldcorp is certainly less expensive on an asset basis, but only slightly less expensive on earnings and dividend basis than the group. Goldcorp is a hold until there is clearer clarity and evidence of a turnaround.

Excitement in Quebec

Midland Exploration (MD, Toronto, 1.01 --1.08) is our top exploration company, one we have often said is following in the footsteps of Virginia Mines. Writing in the last Bulletin about Altius Minerals, I discussed the joint-venture between that company and Midland in the St. James' Bay area of northern Quebec, with two discoveries in the space of a week, a new zinc-bearing belt last week, and then of a nickel-copper-cobalt showing. These discoveries were from grab samples, so clearly they are very early, yet the Midland team is palpably excited about the potential. A large land package has been staked and acquired, and Midland—which is operating the program—announced a vice president of exploration specifically for James Bay, indicating its increased importance.

Strong partners, lots of properties, and cash

Midland is a very strong prospect generator. In has eight active joint-ventures with Teck, Agnico, Osisko, IAMGOLD, Soquem and Jogmec covering gold, copper, base metals, and rare earths, plus numerous properties held 100%. Some of these are being actively explored by Midland with a view to bring in partners now or later. In 2017, over 25,000 metres of drilling has been planned, with a large-backlog of results yet to be released. The company has over $13 million in cash (no debt) so is in a very strong position to advance properties to gain maximum earn-in terms. It has top technical and financial management.

Midland is a core holding for us, for investors wanting exposure to exploration in a conservative and disciplined business plan. The stock has traded below $1.00 several times recently, so I think you could pick up stock at that level. But do own; a short position is building (for goodness knows what reason) and at some point, on success, Midland stock will move meaningfully higher.

* * *