



## A Fool at PDAC – Two More Names for Review

### Description

Briefly, the PDAC convention is a massive annual gathering of the mining community that takes place in Toronto. Development stage resource companies presenting their stories to investors makes up a portion of the proceedings. [A previous post provided slightly more detail on the PDAC convention.](#)

This Fool attended and profiled below are two companies that caught my attention. [The prior post](#) profiled two other companies.

**Sandstorm Gold (TSX:SSL, NYSEMKT:SAND)** – Sandstorm is a streaming company, a business model seemingly built for the current environment when traditional sources of debt and equity financing just aren't there for mining companies.

Sandstorm essentially provides financing to help companies build their mine when nobody else will. In exchange for an up-front, lump sum payment used for mine construction, Sandstorm receives the right to purchase a pre-determined percentage of gold production at a pre-determined price (generally \$300-\$500/oz) for the life of the mine.

A completely fictional example of the model goes like this....Company A has 1 million ounces of gold it wants to extract. Banks won't lend and equity issuance is far too dilutive. Sandstorm gets a call. "Sure", they say, "we'll give you \$20 million to help build that mine, but we want to purchase 5% of the mine's gold production over its lifetime for \$400/oz". The exact conversation may differ slightly.

If the gold price remains at \$1,500/oz, that's a spread of \$1,100/oz. On 50,000ozs (5% of 1 million), Sandstorm earns \$55 million for an outlay of \$20 million. Sandstorm really wins if that million ounce resource grows into something larger, or the price of gold goes up. Or both.

Sandstorm's cost is fixed. All they will ever pay is the \$20 million plus the \$400/oz. A great feature of the model and a very different dynamic than exists in the world of actual mine operators.

If this model sounds familiar it's because it's a copy of the model that has allowed Silver Wheaton to grow from nothing to an \$11.5 billion company over a 10 year period or so. Sandstorm's CEO was a member of Silver's executive team. He is looking to replicate the same type of success with his own

initiative. In my opinion, he's got the business model to do it.

**Solitario Exploration and Royalty (TSX:SLR,NYSEMKT:XPL)** – Solitario is perhaps furthest out the risk curve of any of these PDAC names, but appears to offer a compelling valuation case. The company's feature property is the Mt. Hamilton gold project in Nevada.

According to the feasibility study for this project, an average gold price of \$1,300 over the 8 year expected mine life, and a discount rate of 8%, generate an after tax net present value of about \$61 million. The company's current market cap is \$52 million. Essentially, when you buy Solitario, you're buying the Mt. Hamilton project. You get the rest of the company for free.

The rest of the company includes one of the world's largest undeveloped zinc deposits located in Peru. The Bongara Project is a joint venture between Solitario and Votorantim Metais – a family owned, Brazilian concern that is part of one of the largest industrial conglomerates in Latin America and the world's 5<sup>th</sup> largest zinc producer. Votorantim Metais is going to take care of financing this mine into production. A nice partner to have.

Solitario also has a gold-silver property in Mexico that is joint venture ready and a platinum-palladium project in Brazil that's joint ventured with Anglo Platinum – the world's largest platinum producer.

Again, this is a company with a market cap of \$52 million and therefore flies under the radar of most. However, it is in bed with a couple of big players and seemingly has a feasible gold project ready to go in Nevada. If the Mt. Hamilton project works out that could be enough to give Solitario shares a boost. This name could get really interesting if the other projects work out as well.

### **The Foolish Bottom Line**

Speculative, speculative, speculative – a point that cannot be emphasized enough on any of the four names discussed from this year's PDAC conference (although Sandstorm to a slightly lesser extent than the other 3). The surface has merely been scratched and all four require much more work before a final investment decision is made. However, at this point, all appear to offer a viable opportunity for attractive risk adjusted returns.

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*Fool contributor Iain Butler does not own shares in any of the companies mentioned in this report at this time. The Motley Fool has no positions in the stocks mentioned above.*

### **CATEGORY**

1. Investing

### **TICKERS GLOBAL**

1. NYSEMKT:XPL (Solitario Zinc)
2. TSX:SLR (Solitario Zinc)
3. TSX:SSL (Sandstorm Gold Ltd.)

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