Adrian Day's

Global Analyst

Issue No. 456, 5 pages 19th July 2010

In this Bulletin, we'll review briefly a few of the companies on our list which we have not discussed recently, looking at our last three remaining resource companies. We also highlight a few of our stocks that represent particularly good buys now.

THREE UNDERVALUED, NON-MINING RESOURCE COMPANIES

The remaining three resource companies on our list share something in common; none is a traditional miner. And the stock of all three is undervalued. S**ilver Wheaton** (SLW, Toronto, 17.78) is one of two silver companies on our list, but SLW is not a mining company. Instead, in a business model similar to the royalty model of which I am a fan, it acquires the stream of revenue from the silver output of other miners, usually miners for whom silver is a by-product. In a typical arrangement, Silver Wheaton pays a certain amount up-front plus a per ounce payment in exchange for all the revenue from the silver output. Thus Silver Wheaton has a known and (relatively) fixed cost while retaining all the upside from silver.

Two major projects add to revenues

Recently, Silver Wheaton has been reporting record ounces per share as well as record earnings following the addition of two huge, long-life silver streams. First, in a deal with Barrick, it paid $625 million, and guaranteed $3.90 an ounce, for the silver output from four of Barrick's Latin American mines, including 25% of the silver from the new Pascua Lama, the third largest silver deposit in the world.

Second, Goldcorp's Penasquito, on which Silver Wheaton has a silver stream, is ramping up, with development on time and on budget. (Penasquito, in Mexico, benefits three of the companies on our list: Goldcorp, the owner, SLW with the silver stream, and Royal Gold with a gold royalty.) SLW is to receive 25% of the silver production over the initial 22-year mine life, or approximately seven million ounces a year, after full production ramp-up which is on-track for early next year. The company also bought two smaller, but advanced silver streams this year.

Cash and growth

With a solid balance sheet—no net debt, $280 million cash and $400,000 undrawn on a line of credit—and continued growth, as well as two large mines, Pascua and Penisquito, moving towards full production, Silver Wheaton is in a strong position to benefit from internal growth as well as any advance in the price of silver. We would hold and look to buy on a pullback.

<u>An innovative business model brings rewards</u>

Altius Minerals (ALS, Toronto, C$10.01) has not stood still since reaping $37 million cash and $24 million in shares from its International Royalty stake when Royal Gold acquired that company. Though it has not (yet) been able to acquire ROY's shares of the Voisey's Bay nickel royalty to add to its own, it has moved forward with the spin off of its iron ore property in a new public company, Alerdon Resource, which is undertaking a very aggressive exploration program on the Kamistiatusset iron ore project. Altius retains about 50% interest in Alderon and royalty on the project.

In a transaction similar to its very successful spin offs of Rambler Gold (12.5% interest) and Aurora Energy, we would expect Altius to sell down its shares in Alderon over time, while retaining the royalty.

Another new deal has been its joint venture with Millrock, a project generation company focused in Alaska and Arizona. We may expect Altius to seek similar joint ventures in other areas, building a portfolio of such low-entry, high-potential ventures.

<u>Returning to its roots, with cash and projects</u>

It continues its grassroots generative program in Newfoundland, in addition to the current 17 active projects and eight active joint ventures, primarily in gold, uranium, copper, and nickel. In addition, it owns a royalty interest in Voiseys' Bay nickel mine, which earned over $4 million in its year ending March 2009. Production at the mine—and therefore Altius' royalty income—is currently curtailed owing to an ongoing strike.

With a sound business plan, interest in multiple projects on which others are spending money, a rock-solid balance sheet with over $200 million in cash and marketable securities, and entrepreneurial management, Altius is in a strong position to benefit from several internal developments as well as renewed strength in the resource sector. With a market cap of $287 million, the stock is good value with minimal downside. The company indeed has in place a buy-back plan for up to 5% of the outstanding shares. With two tranches already on our list, we would look for weakness to buy more, but Altius remains a core holding.

<u>Two new spin offs and long-term value</u>

Sprott Resources (SCP, Toronto, $4.10) has multiple direct and indirect interests in resources, primarily agriculture, oil & gas, and gold. In a strategy similar to that of Altius, it has recently spun off two units, raising capital while retaining large share interests. These are Orion Oil & Gas, of which it holds 79% currently worth (using market price) $236 million; and Stonegate Agrium, a phosphate exploration company, of which it holds 57%, valued at $48 million.

Another division with a similar exit strategy, though a longer-term horizon, is its One Earth Farms joint venture with Canada's First Nations, already one of Canada's largest farms, which recently commenced initial crop harvest.

Lastly, it has built a substantial holding in gold bullion, valued at $75 million at cost (and worth around $90 million today. Add cash of $81 million and the value of its holdings, and Sprott has an asset value well in excess of its market cap just shy of $400 million. (Note there may have been purchases or sales since it last reported, in early May.) So Sprott, like the other two, represents good value.

<u>Good value to buy on dips</u>

All three companies here are among our top holdings, one of which we've held since 2004 and another in which we hold two separate tranches. All three represent good value here; if you do not own, we would buy Sprott here, though wait on the others.

*** * ***

In our next issue, we'll conclude our review of all our current holdings. We like to briefly review all holdings once every six months or so, though we devote more ink to companies with major developments, companies in trouble, or stocks that represent good buys at prevailing prices. Sometimes, with a quality company, having little to say need not be a bad thing.

*** * ***

Best buys currently are **Vista Gold** (VGZ, NY, 1.39), down after selling of stock received by hedge fund holders of a convertible issue and further delays in its Mexican permits; **Midland Exploration** (MD, Toronto, C$1.24--1.30), inexpensive for a quality exploration company; **Royal Gold** (RGLD, Nasdaq, 42.93), down after yet another major equity issue (see last issue); **Miranda Gold** (MAD, Toronto, 39 cents), cash-rich with multiple projects; and **Magma Energy** (MXY, Toronto C$1.13), down after raising money to fund its Orka purchase (see #452). All four can be purchased at these prices, though be careful not to drive Midland, in particular, higher with your own buying.

<u>What to take to the beach</u>

If "chick-lite" is not your style, a surprising name on the best-seller lists may be more to your liking. Frederich Hayek's high-influential, popular exposition of classical liberal economics, and the dangers of encroaching government, *The Road to Serfdom,* found its way to the top of the non-fiction lists, thanks to the entreaties of Glenn Beck. I'm not a fan of the high-volume style of political discourse, but Beck has performed a great job bringing the book to wide attention.

In his classic answer to Keynesianism and the welfare state, the lessons from Hayek's 1944 work are as relevant today as then. It was one of the most influential books in my own early education after I had the honor to sit at his feet during a guest lecture at the London School of Economics. *Road to Serfdom* is one of those books that every educated person should read. To purchase or for more information, go here.

Another "must-read" book—well, not quite Hayek, but now my publisher has announced the forthcoming publication of my eagerly awaited new book (only 28 years since the last!), I should let you know. *Investing in Resources: How to Profit from the Outsized Potential and Avoid the Risks* is scheduled for publication by John Wiley & Sons in October (just in time for Christmas). I'll update details as they are available.

And talking of the beach, check out the colorful, stylish swimsuits from Le Doux, run by a friend of mine (pardon the blatant and totally irrelevant plug). Cameron Diaz and Paris Hilton among other celebrities are fans of the brand. It would make a great gift!

THREE SEMINARS OFFER SOUND ADVICE

UPCOMING SEMINARS This fall promises several very valuable seminars. There are three in October, each with a different focus, that may be of interest. (You can go to our website, www.AdrianDayGlobalAnalyst.com, for a complete list of forthcoming appearances.)

- **October 2nd, in Rockville, Md**., a one-day seminar hosted by my good friends at Asset Strategies International. This hands-on and practical session will focus on precious metals, foreign currencies, and offshore banking, with speakers including Michael Checkan, Thomas Fischer of Denmark's Jyske Bank, and yours truly. Attendance is limited and it's filling rapidly (seriously), so register now if you are interested. More information to follow, or contact Elena Keller at 800-831-0007.

- **October 5th to 7th, London England** for World Commodities Week. Many leading company executives and fund managers from around the world (including US Global's Frank Holmes) on the outlook and challenges facing different commodities, with special gold and China tracks. For the serious investor, visit www.terrapinn.com/2010/commoditiesweek for details.

- **October 27th to 30th, New Orleans:** the ever-popular annual New Orleans conference offers keynote speakers from the worlds of politics, economics, and the media, in addition to top investment analysts. This year's extensive line-up includes the dynamic Dr. Marc Faber who will offer insights on China, Asian emerging markets, commodities and other markets; broadcaster Charles Krauthammer who was such a hit as last year's conference, and former Comptroller General David Walker who has been warning of the debt crisis for years, plus all your favorite investment speakers. For more information or to register, click here.

I shall send more information on these seminars separately in coming days.

HELP THESE NEEDED CANDIDATES WIN ELECTION

They need your support I rarely make such overtly political pitches but there can be little question but that the upcoming elections could be critical to the future direction of this country. Some would suggest that the financial situation is such a mess, debt far too high, and civil liberties already diminished to such an extent that the war is already lost. I shall not argue that point here, but a couple of high-profile candidates who could make a genuine difference need your help. Peter Schiff is the underdog for the early-August Republic primary in Connecticut, but a last-minute media blitz would help. Many of you will know Peter, who heads the global investment brokerage EuroPacific. Some find his personality somewhat singular, but there is no doubt the Senate could use someone like him, a businessman with a solid understanding of economics, and who has the courage of his convictions. Go to www.schiffforsenate.com.

Devil or angel?

Also far behind in the fund-raising stakes is Sharron Angle. She too has a poor image in the media, fuelled by hostile attacks by Obama, a sure sign the incumbent is under siege. Now I don't know Mrs. Angle, but a good and old friend of mine—one of the very first people I met on U.S. soil over 30 years ago—has been a personal friend of the family for decades and is terribly upset at the Obama/Reid/media image of her ("a pack of lies").

Now *The Wall Street Journal's* Stephen Moore—no right-wing extremist he—sat down with her at Mark Skousen's FreedomFest conference in Las Vegas earlier this month and painted a very different portrait in Friday's *Journal.* It's worth reading if you can lay your hands on a copy. She's clearly no rightwing kook. Whatever your own opinions, would you not like to see Harry Reid soundly defeated? Few deserve it as much as he, and it can happen. Go to www.sharronangle.com.

* * *

I was on CNBC recently in a segment on oil and gold. We discussed the short-term outlook for gold as well as best ways to buy for defensive purposes. To view this video and see other recent press items, go to our website.

*** * ***

OK, so let's finish with a laugh. In a newly released transcript of a Federal Reserve meeting in March 2004, former Fedhead Alan Greenspan argued against disclosing too much information to the public, according to *Reason* magazine, lest the Fed—*and I quote*—"lose control of a process that only we fully understand." You know what, I think these people are not only fools and knaves, but they actually do believe this.