

Riding the Bucking Bronco of Latin American Mining

Rodeo riders are often shown getting tossed off the horse and then dusting themselves off and jumping back onto their mount and repeating all over again. That is those riders who are not killed or maimed in the process... This activity reminds us somewhat of investing in Latin America. We rode the broader Latin American equities boom that began in 1990 and hung on like grim death until finally surrendering in 2001. Then we saddled up again after the crash of 2008 and rode the Latin American mining markets.



At one point we were told that there were over two hundred listed Canadian miners operating in Mexico. However this statistic comes with the same type of hyperbole as the “200 listed Rare Earths companies” number that was flying about in that boom. What was undisputed was that LatAm was hot. The enthusiasm was reinforced as the Monopoly game heated up and there was fast and furious M&A that then fed more activity.

Downfall

The shine started to go off LatAm earlier than the rest of the mining market's decline into torpor. The reasons for this were various. Firstly regimes in the region did not match up with the glowing reports outside consultants had projected and while, in theory, Fraser Institute surveys might have rhapsodized about official receptiveness to mining, the practice on the ground was less welcoming. Bolivia was first into the penalty box, followed by Venezuela's seizure of Crystallex and the Ecuador indulging in a long and confusing process of changing its mining rules and then its royalties. Argentina was particularly confusing as regulations are

devolved to provinces in the 1990s meaning that it had over 20 different mining regimes. That was further compounded by some that were positive, flipped to negative upon the results of a provincial election and then switched back again. La Rioja is a good example of this. Mendoza and Chubut, two particularly mineral rich provinces allowed pressure groups to sabotage and hold up massive mining projects which had some of the world's largest miners retreating from the country. Ironically the other country most like Argentina in having a proliferation of mining regimes is actually Canada!

The picture was then complicated further by base metals (excepting copper) never really being, post-2008, as sexy as they had been before the crash. Nickel (Brazil), and Lead/Zinc (Peru and Mexico) were way off their highs and never rebounded, except for short rallies that petered out. Copper was at good prices levels (until very recently) but the projects being envisioned burgeoned in size and thus outran the cash available to finance them. This era of gigantism in copper meant that small and even larger projects (like Yamana's Agua Rica) were left to the side while Great White Whales like Oyu Tolgoi and Tenke Fungurume in other continents became the sexiest objects to pursue.

The Chinese purchase (and then putting in cold storage) of companies such as Peru Copper and Northern Peru Copper meant that some pre-2008 discoveries just disappeared from sight. Not all copper projects died out though as Norsemont's Constancia is being brought slowly (and expensively) to fruition by HudBay, Las Bambas was picked up by Chinese-owned MMG from Xstrata and Candelaria passed from Freeport into the hands of Lundin. Hoped for projects like that of Baja Mining and Pascua Lama came to grief.

Chile deserves a special mention as the country that has had the steepest fall in my estimation in recent years. While the country has its perennial fans the combination of a persistent energy crisis, a very tight availability of water and the

judicial system's roadblocks to the Pascua Lama project mean it is not the happy hunting ground that many investors thought. This will not be remedied soon. That is why we favour small projects in accessible sites over grandiose schemes in the high Andes.

Time to Saddle Up Again?

Just as we are feeling more bullish about mining in general for 2015, the sentiment has spilled over geographically into my perceptions of Latin America. A microcosm of this is Lundin's purchase of the long-becalmed Fruta del Norte project in Ecuador (from the hapless Kinross) where the company claims that the government is finally seeing the light (this illumination also coincides with the oil price plunging, surprise, surprise). Elsewhere I would expect Venezuela's unsustainable regime to finally come to grief as lower oil prices finally give the death knock to Chavismo. Cuba is opening up and its nickel/cobalt riches might soon become accessible again. In Argentina the Kirchner regime stumbles towards its eventual demise. Bolivia is not even as bad as people paint it with mainly private operators getting their heads around how to operate with local cooperatives to come to mutually workable solutions. The country remains as always one of the great treasure houses of silver, lead/zinc, antimony and tin.

With things in such a state of flux, we thought it a good time to dust off an old concept of a Model Latin American Mining Portfolio to monitor the progress of stocks in the region over the coming years and hopefully identify some likely candidates for corporate actions, or recovery from bargain basement pricing, recovering currencies or changed country risk.

The portfolio has twelve names, for starters, with a mix of countries and a mix of names familiar to Investorintel followers, plus some additions that I have long followed. We used a notional amount of US\$1.5mn as starting funding. Most

of the positions start out at \$100,000, though some of the less liquid names are only \$50,000 for starters. This leaves us also with a stash of cash to add some extra names in coming months (which shall also happen if cash is freed up by selling a position that reaches its target). We have no Shorts at the moment as everything is so cheap, but showing no fear or favour we shall add some if we find something egregiously overvalued in our wanderings.

Here is the current state of play:



Conclusion

This is just the opening shot. I shall be giving updates on the portfolio from time to time and continue highlighting as always our most favoured stocks, Chesapeake, Largo and Levon. Now all we need is for markets to see the light that things are stirring "South of the Border".