SCP EQUITY RESEARCH

Andean Precious Metals, 16 January 2025

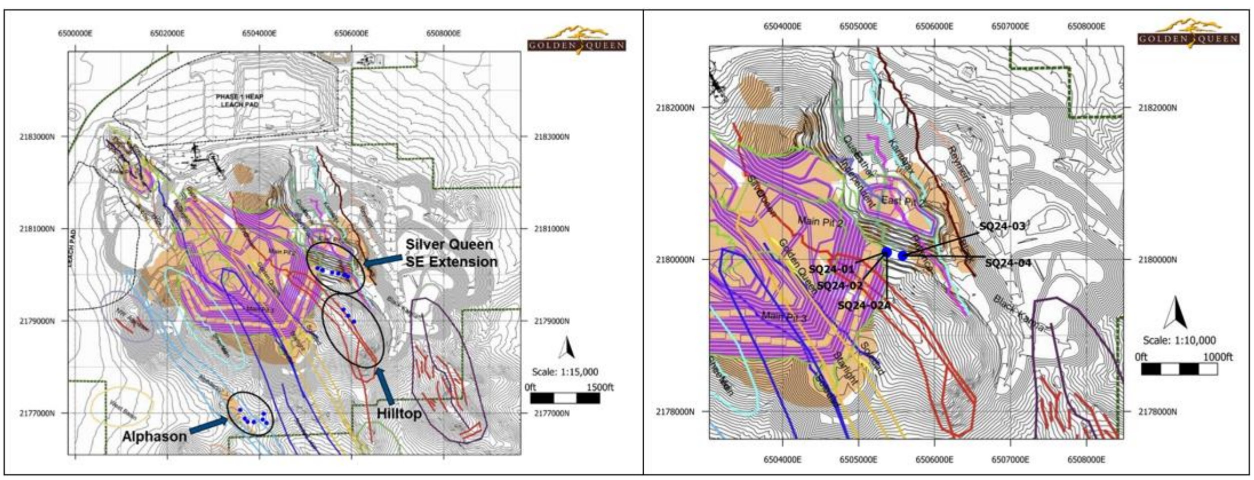
Ticker: APM CN	**Cash and mkt. sec.:** US$98m	**Project**: San Bartolome/ Soledad Mtn.
Market cap: C$203m	**Price:** C$1.36/sh	**Country:** Bolivia / USA
REC. (unc): BUY	*TARGET (+0.10): C$1.70/sh*	*RISK RATING (unc): HIGH*

With Andean trading at SCPe 21% FCF yield for 2025, plus a strong balance sheet (US$98m cash and marketable securities, US$27m net cash at end Q3), mine life extension is the key driver for value re-rate in our view. Today's Golden Queen drilling is a good start, with five holes today (of 23 holes drilled) testing extension of the Silver Queen deposit and upcoming results testing the Hilltop and Alphason targets (step outs). Today's average hit (3.1m at 1.29g/t Au and 14.6g/t Ag, 3.8 hits per hole) from 36-214m DH shows good grade relative to the 0.7g/t reserve grade with potential to bulk out to manageable open pit mining widths at profitable grades (~0.5-0.7g/t in our view) at today's prices. We expect further drilling results to inform the budget for this year, with the target of extending mine life at Golden Queen (through 2028 on current reserves, we model on additional year).

At San Bartolome, the operation has transitioned to primarily third party ore. While this means that it's more challenging to produce NI 43-101 compliant reserves for the market, the operation's status as the largest silver oxide mill in Bolivia and the large volume of oxide ore in country means we think the operation will continue operating indefinitely. In terms of production impact from the Silver Elephant MSA termination, we currently leave our estimates unchanged, noting that APM has already signed contracts to purchase 100kt from a new supplier and we expect other third party purchases will help fill the gap.

We maintain our BUY rating and lift our target price to C$1.70/sh (prev C$1.60/sh) based on 1.0xNAV5% at US$30/oz Ag and US$2000/oz Au LT on model roll forward and FX. *Given the last two quarters of positive cash flow (totalling ~US$25m), we think Andean offers an attractive combination of cash flow, torque to metal prices, and potential for value add through mine life extension and using their balance sheet to pursue further accretive growth.*

Table 1: (A) 2024 drilling targets; (B) plan view of drill holes reported today



Golden Queen drilling hits avg 3m @ 1.3g/t Au vs 0.7g/t reserves, targeting mine life extension

Drilling results from five exploration holes from phase 2 exploration at Golden Queen. 19 hits were reported (3.8 hits/hole) averaging 3.1m @ 1.29g/t Au and 14.6g/t Ag from depths of 36m to 214m downhole. Best hits included **7.9m @ 2.4g/t Au and 13.7g/t Ag from 95m DH (vertical hole)** and **4.1m @ 2.6g/t Au and 19.2g/t from 52.5m**. The Phase 2 program totalled 23 holes for 4,330m testing the Silver Queen SE Extension, Alphason and Hilltop targets. All drilling encountered low sulphidation quartz veins and vein stockworks outside the MRE pit limits.

Other: Today Andean also noted the Golden Queen GM Sylvain Lessard stepped down as GM. Site management will be supervised by COO Marcos Hollanda until a replacement is found. Earlier this week

Andean announced a sale and purchase agreement for up to 100kt from Trapiche with the right to reject material under 180g/t. Andean will pay a fixed purchase price based on the silver grade of the material. On 31 Dec 2024 Silver Elephant terminated the Master Services Agreement with Andean under which it had delivered SCPe 262kt at 183g/t for 1.54Moz Ag from October 2023 through November 2024.

Why we like Andean

1. San Bartolome is Bolivia's only Ag oxide mill, new Ag oxide discoveries being made in Bolivia
2. Now has two producing assets in the Americas

Catalysts

- 2025: SCPe US$38m FCF
- Ongoing: Exploration and M&A review

Research

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Ticker:	APM CN	Price / mkt cap:	C$1.36/sh, C$203m	Market P/NAV:	0.82x	Assets:	San Bart./Soledad Mtn.
Author:	J Chan	Rec / PT:	BUY / C$1.70	1xNAV$_{3Q24}$ FD:	C$1.66/sh	Country:	Bolivia / USA

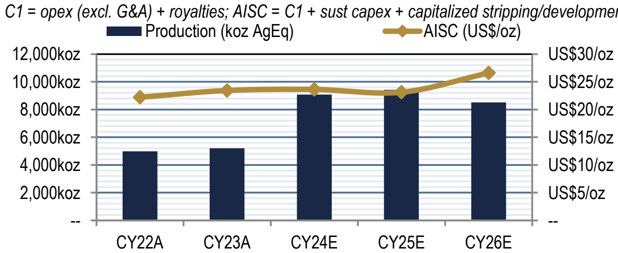
Group-level SOTP valuation 3Q24E	4Q24E			
	US$m	O/ship	NAVx	C$/sh
San Bartolome NPV 4Q24E	88	100%	1.0x	0.76
Golden Queen NPV 4Q24E	62	100%	1.0x	0.54
Central SG&A & fin costs 4Q24E	(4)	-	1.0x	(0.03)
Nominal exploration upside	10		1.0x	0.09
Cash and mark. sec. 3Q24E	98	-	1.0x	0.84
ST Dore and VAT receivables	8	-	1.0x	0.07
Pro forma debt	(71)	-	1.0x	(0.61)
ITM options	1	-	1.0x	0.01
1xNAV5% US$30/oz	**193**			**1.66**
Target multiples	**Multiple**			**C$/sh**
Target P/NAV Multiple	**1.00x**			**1.70**
Target price				**1.70**

Sensitivity to silver or gold price and discount / NAV multiple					
1xNAV San Bartolome (US$m)	$25.0oz	$27.5oz	$30.0oz	$32.5oz	$35.0oz
7% discount	78	82	86	90	94
5% discount	80	84	89	93	97
3% discount	83	87	92	96	101
1xNAV Soledad Mountain (US$m)	$1800oz	$1900oz	$2000oz	$2100oz	$2200oz
7% discount	29	48	66	85	101
5% discount	29	49	68	87	105
3% discount	30	50	70	90	108
Valuation (C$/sh)	$1800oz	$1900oz	$2000oz	$2100oz	$2200oz
0.80xNAV	1.10	1.20	1.40	1.50	1.60
1.00xNAV	1.40	1.50	1.70	1.90	2.00
1.20xNAV	1.60	1.90	2.10	2.30	2.40

Valuation over time	4Q24E	4Q25E	4Q26E	4Q26E	4Q26E
Mines NPV (US$m)	171	153	102	82	73
Cntrl G&A & fin costs (US$m)	(16)	(4)	8	(3)	5
Net cash (US$m)	26	64	99	103	131
Other Assets + Options	11	11	11	11	11
1xNAV (US$m)	191	223	220	193	221
P/NAV (x):	0.83x	0.71x	0.72x	0.82x	0.72x
1xNAV share px FD (C$/sh)	1.64	1.92	1.90	1.66	1.90
ROI to equity holder (% pa)	*10%*	*19%*	*12%*	*5%*	*7%*
1.3xNAV share px FD (C$/sh)	2.13	2.50	2.46	2.16	2.47
ROI to equity holder (% pa)	*25%*	*35%*	*22%*	*12%*	*13%*

Production (100%)	CY22A	CY23A	CY24E	CY25E	CY26E
San Bartolome (000oz AgEq)	4,991	4,715	4,658	4,735	4,721
San Bartolome cash cost (US$/oz AgI	17.51	19.32	19.65	20.43	19.99
San Bartolome AISC (US$/oz AgEq)	19.55	21.50	22.20	24.05	23.52
Soledad Mtn. (000oz AuEq)	-	6	59	70	64
Soledad Mtn. cash cost (US$/oz AuE	-	1,012	1,755	1,552	1,965
Soledad Mtn. AISC (US$/oz AuEq)	-	1,557	2,004	1,824	2,124
Group (000oz Ag)	4,788	4,602	4,797	4,330	3,971
Group (000oz Au)	3	7	54	64	63
Group (000oz AgEq)	4,991	5,202	9,078	9,421	8,515
Group cash cost (US$/oz AgEq)	18.22	19.80	22.09	21.55	25.04
Group AISC (US$/oz AgEq)	22.22	23.45	23.64	23.13	26.60

C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/developmen



Source: SCP estimates

Resource / Reserve	Mt	Moz Ag	Moz Au	EV/oz Ag	EV/oz AgEq
Measured, ind. & inf. - Andean	4.14	28.1		4.3	4.3
SCPe Mine inventory	5.78	34.3		3.5	3.5
Share data					
Basic shares (m): 149.4	FD + options (m):		155.0	FD + FF	155.0
Commodity price	**CY22A**	**CY23A**	**CY24A**	**CY25E**	**CY26E**
Silver price (US$/oz)	26.3	22.2	23.5	30.5	30.9
Ratio analysis	**CY22A**	**CY23A**	**CY24A**	**CY25E**	**CY26E**
FD shares out (m)	157.9	168.1	178.1	178.1	178.1
EPS (US$/sh)	(0.056)	0.229	0.154	0.140	(0.059)
CFPS before w/c (US$/sh)	(0.00)	0.06	0.25	0.34	0.12
FCFPS pre growth spend (US$/s	(0.04)	(0.03)	0.14	0.22	0.20
FCF/sh (US$/sh)	(0.04)	(0.06)	0.05	0.22	0.20
FCF yield - pre growth spend (%)	neg	neg	14.6%	21.4%	19.4%
FCF yield (%)	neg	neg	4.7%	21.4%	19.4%
EBITDA margin (%)	(1%)	4.2%	21.0%	23.6%	10.0%
FCF margin (%)	(6%)	(9%)	2.9%	12.2%	12.6%
ROA (%)	(7%)	14.3%	9.5%	9.1%	(4%)
ROE (%)	(9%)	29.2%	17.2%	13.5%	(6%)
ROCE (%)	(8%)	0.0%	17.3%	17.0%	(2%)
PER (x)	(18.5x)	4.4x	6.3x	7.2x	(17.4x)
P/CF (x)	(1,480.9x)	15.9x	3.9x	3.0x	8.2x
EV/EBITDA (x)	(51.1x)	28.6x	2.5x	1.6x	3.0x
Income statement	**CY22A**	**CY23A**	**CY24A**	**CY25E**	**CY26E**
Revenue (US$m)	108.0	125.3	280.3	313.1	279.0
COGS (US$m)	(91.1)	(105.9)	(208.9)	(225.2)	(238.7)
Gross profit (US$m)	**16.9**	**19.4**	**71.4**	**87.9**	**40.4**
Expenses (US$m)	(19.4)	(22.6)	(18.5)	(29.0)	(25.7)
Impairment & other (US$m)	-	-	-	-	-
Net finance costs (US$m)	0.0	42.9	1.9	2.0	1.9
Tax (US$m)	(0.0)	(4.4)	(16.8)	(16.0)	(7.6)
Minority interest (US$m)	-	-	-	-	-
Net income attr. (US$m)	**35.4**	**37.9**	**44.8**	**9.0**	**-**
EBITDA	*(8.8)*	*38.5*	*27.4*	*24.9*	*(10.5)*
Cash flow	**CY22A**	**CY23A**	**CY24A**	**CY25E**	**CY26E**
Profit/(loss) after tax (US$m)	(10.1)	38.5	27.4	24.9	(10.5)
Add non-cash items (US$m)	10.0	(28.0)	16.4	34.8	32.6
Less wkg cap / other (US$m)	(2.6)	(6.4)	(1.3)	(0.1)	21.4
Cash flow ops (US$m)	**(2.7)**	**4.2**	**42.5**	**59.6**	**43.6**
PP&E (US$m)	(2.2)	(6.0)	(29.4)	(16.3)	(8.3)
Other (US$m)	(1.5)	(9.0)	(5.0)	(5.0)	-
Cash flow inv. (US$m)	**(3.7)**	**(15.0)**	**(34.4)**	**(21.3)**	**(8.3)**
Debt draw (repayment) (US$m)	(0.2)	(7.8)	(7.5)	(40.0)	-
Equity issuance (US$m)	-	-	-	-	-
Other (US$m)	0.9	(1.5)	-	-	-
Cash flow fin. (US$m)	**0.8**	**(9.3)**	**(7.5)**	**(40.0)**	**-**
Net change post forex (US$m)	(5.7)	(20.2)	0.6	(1.6)	35.3
Balance sheet	**CY22A**	**CY23A**	**CY24A**	**CY25E**	**CY26E**
Cash (US$m)	80.7	64.9	65.5	63.9	99.1
Accounts receivable (US$m)	0.2	0.9	2.2	2.3	2.0
Inventories (US$m)	11.7	68.4	68.4	68.4	52.1
PPE & exploration (US$m)	16.6	92.4	110.4	96.9	72.6
Other (US$m)	24.6	43.4	43.4	43.4	43.4
Total assets (US$m)	**133.9**	**269.9**	**289.8**	**274.7**	**269.2**
Debt (US$m)	-	47.5	40.0	-	-
Other liabilities (US$m)	39.4	90.5	90.5	90.5	95.4
Shareholders equity (US$m)	26.5	25.5	25.5	25.5	25.5
Retained earnings (US$m)	67.9	106.4	133.9	158.7	148.3
Minority int. & other (US$m)	-	-	-	-	-
Liabilities+equity (US$m)	**133.9**	**269.9**	**289.8**	**274.7**	**269.2**

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TENDER: The analyst recommends tendering shares to a formal tender offering

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NOT RATED (N/R): The stock is not currently rated

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Summary of Recommendations as of January 2025	
BUY:	43
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	44

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