ERO | Portfolio Optimization and Real Options; $28.50 Target

Our top holding, Ero Copper, reported second quarter earnings last Thursday, so we’ve included an update for this week’s commentary. Ero’s management team has done a fabulous job at growing the company in such a short period of time, and with every earnings release and major announcement, we are more and more excited with how the story is unfolding. Ero shares have been an absolute juggernaut and are up 118% in the 2019 calendar year.

Here is a note from our mining analyst, Dalton Baretto.

Summary: ERO reported a strong Q2. However, as we have stated so many times in the past, of far more interest to us is the projected growth profile of this company and the path to get there. As such, commentary on the call around management’s thinking on this subject was very informative. We discuss this ramp-up scenario in greater detail below, but we caution investors that this scenario is an aspirational plan that ERO is working toward, and as such will take time to fully unfold.

With our own estimates already bake in some of this upside – we continue to believe that bullish stance as well as our $28.50 price target is a realistic scenario for Ero moving forward. ERO currently has 27 rigs turning at their complex, and plans to spend $26 million this year drilling 200,000 metres. A number of discoveries, both near-mine and regional, have already been announced. In addition, ERO’s neural-network model using over 35 different data-sets backed up by the recent airborne survey has generated over 50 high-priority targets on the property.

Longer-term, management envisions a scenario where the mill is being fed by a
number of different deposits, with contributions optimized in real time to generate the highest possible ROIC (return on invested capital). With most of the company's 27 rigs pivoting away from infill drilling to testing near-mine and regional targets, we look forward to ERO's upcoming quarterly exploration updates as Phase 1 of the aspirational scenario unfolds.

**Q2 recap**: We summarize ERO's copper production was well above our estimate, while cash costs were below our forecast. Given the strong production and costs, EBITDA for the quarter was 9% above our estimate. ERO increased its copper production guidance for the year by 2,000 tonnes, and expects to be at the low end of its cost guidance for the year. In addition, the company increased its exploration budget by $6 million to $26 million, and now expects to drill 200,000 metres this year (previously 135,000 metres).

ERO generated $37 million in cash from operations in Q2, and ended the quarter with a comfortable liquidity position of $63 million.

**SOUNDBITES**

- Whether you are a bitcoin bull or bear, the legitimacy of the currency is constantly in question. A new research study published by Bitwise is casting even more doubt on the validity of bitcoin trading, with the analysis showing the majority of bitcoin trading is a hoax. The firm analyzed the top 81 crypto exchanges weighted by volume and discovered that 95% of spot bitcoin trading volume is faked by unregulated exchanges. “People looked at cryptocurrency and said this market is a mess; that’s because they were looking at data that was manipulated,” said Matthew Hougan, head of research at Bitwise. Out of the $6 billion in average daily bitcoin volume, Hougan found that only $273 million of that is legitimate.

- And so, the trade war roars on. Following Trump’s announcement of an additional 10% increase on the existing tariffs and accusation that China is a currency manipulator, the Chinese Commerce Ministry responded with a complete halt in US agricultural imports into China. This move could spell disaster for an already stumbling US farm sector. According to the American Farm Bureau, China was the fourth largest importer for US farms, representing sales of $9.1 billion in 2018. Not only is this bad news for farmers, it could take a chunk out of GDP and affect further industries such as farm supply.

- As the weekend wound down, we were greeted with a news headline from none other but the billionaire Jim Pattison. Great Pacific Capital Corp., a member of The Jim Pattison Group, has announced that they have made a proposal to take the lumber company, Canfor (CFP), private at a price of $16.00 per common
share, which is payable in cash. The Jim Pattison entity already owns roughly 51% of the outstanding Canfor shares, and believes this transaction provides a significant opportunity for shareholders while serving the best interests of the company. Shares of Canfor closed at $8.80 on Friday, thus representing a premium of approximately 80%. If the proposed transaction is successful, Great Pacific will eliminate a ton of overhead expenses that are incurred when maintaining a public company’s status and will allow for much needed re-investment of capital into struggling operations.

**MARKETWATCH – A LOOK AT THE WEEK’S NEWSMAKERS**

**Amazon Inc (AMZN)** leader and the world’s richest man, Jeff Bezos, sold approximately $2.8 billion worth of stock last week. The founder unloaded roughly 200,000 to 320,000 shares per day, equating to a whopping 1.5 million shares over the course of the week. During the week, Amazon stock was down 6% and slipped an additional 3% the following Monday when the markets were in turmoil thanks to trade escalations and Trump accusing China of currency manipulation. It’s still unclear where the proceeds will be used, but it is speculated that Bezos will use a portion to finance his space business, Blue Origin. Another recipient of the funds could likely be Bezos Day One Fund, a charitable venture he founded in September 2018. It has been a busy year for Bezos, following the highly publicized divorce from his former wife, MacKenzie, which shaved $38 billion off his net worth. While last week’s sales were his only in 2019, it still represented his largest-ever year of liquidating stock.

**The Kraft Heinz Company (KHC)** shares tanked Thursday morning, falling more than 14% after the second-quarter results proved further erosion in its business. Once again, the company delayed its filing of earnings with the regulators, which tends to never bode well with investors. To make matters worse, Kraft Keinz wrote down the value of the company by an additional $1.2 billion and couldn’t provide any clarity whatsoever as to when the decline of its business might subside. Following the carnage, shares were lambasted down to all-time lows...

**Uber Technologies (UBER)** reportedly lost over $5 BILLION in one quarter, firmly cementing themselves behind ride-hailing competitor Lyft for the time being. This is Uber’s biggest loss on record, and it comes after the company IPO’d back in May. On the flip side, Lyft recently posted expectation busting earnings, which doesn’t bode well for Uber shares moving forward. Shares plummeted over 10% on Friday morning, but investors helped minimize the damage and traded back up throughout the day. Uber’s CEO, Dara Khosrowshahi, was very convinced that the $5.2 billion dollar loss was a “once in a lifetime hit”, suggesting that the lions share of the loss was attributed to stock-based compensation. Time will tell if Uber can regain strength, but as of right now, Lyft is the clear leader in the space.
FROM THE TWITTERSPHERE

Jamie Switzer @jamie_switzer

I am blown away with the class and dignity that #CarsonCrimeni’s family is dealing with his tragic death. They are doing everything they can to make sure this builds awareness for other teens. #overdose #tragedy

Jamie Switzer @jamie_switzer

Just because you are a supporter of the environment, doesn’t qualify you as a good person. #ElizabethMay is becoming more of a loon by the minute...

Jack Stillie @jackstillie

Highly recommend picking up a copy of @Billbrowder fascinating book #RedNotice – what a remarkable and powerful story by the former #WallStreet CEO

"There are no facts about the future.” – Ashby Daniels

Investing in any of the securities mentioned above may not be suitable for all investors, as there are different types of risks involved with these investment strategies. Even if suitable to your level of risk tolerance, any or some of those securities may not be appropriate for your portfolio, depending on what other investments you hold. Please note that, from time to time, we may have personal investments in any or some of those securities and that past performance may not be repeated. Please do not hesitate to contact us should you want to know more about them or have any related questions.