THE MIKE ALKIN SHOW

TALKING STOCKS OVER A BEER

Speaker 1: Free and clear of the chatter from Wall Street, you're listening to Talking Stocks Over Beer, hosted by hedge fund veteran and newsletter writer, Mike Alkin, who helps ordinary investors level the playing field against the pros by bringing you market insights and interviews with corporate executives and institutional investors. Mike sifts through all the noise of mainstream financial media and Wall Street to help you focus on what really matters in the markets. And now, here's your host, Mike Alkin.

Mike Alkin: Welcome to the podcast. It's Tuesday, May 8th, 2018. Hope you had a nice weekend. We did something that I can't think my wife and I have allowed our children to do since they were born. I think I told you we were watching The Blacklist. And I started it off, thanks to the reader, John, who had mentioned that it's something to watch. And now I'm just ... I'm hooked, and we're binge watching. I mentioned that last week, I'm going to mention it again. So, my wife then started following, watching it, about a week after I did. And then my daughter and son started watching it, and we're all at different points.

Mike Alkin: Now this is not good for family time I have to tell you, but luckily we get enough family time elsewhere. But we're all hooked. Sunday my wife and daughter went into Manhattan and they saw a play, and my son had a lacrosse game, and he and I were hanging out for a while. And then they got back for dinner, and what did we do? We all were away from the house for the day, and we all couldn't wait to watch Blacklist. But now here all four of us are on different episodes. So, it was one of the most ridiculous scenes at our dinner table. Now normally, Sunday night is just ... we all, no matter we're doing, are all going to get together for dinner, and we're going to have dinner, and talk about our week, and what's coming up, and we get our game plan together, and everything's good.

Mike Alkin: And sometimes some of our neighbors are over. Our kids' friends know if they come over on Sunday night, if they have dinner with us they have to tell us about what's going for their week, and that's what it is. Not this Sunday night. So, what happens last

night ... we're all four on our iPads with our earbuds in watching our different episodes. I mean, it was ridiculous. If you looked at the scene and you just were looking at it from looking ... if you were peering through our windows you would say, "Oh my God, look at this family, they're dysfunctional." No, we're not dysfunctional. I mean, some days we are, like anyone else.

Mike Alkin: But we're all hooked on this, and we're all ... and for me now, I'm the leader right, because I'm ahead in the watching. So, everyone's asking me what happened and I'm not giving it up. Now my wife, the way she's a veracious reader, but she reads ... I don't know if you remember When Harry Met Sally ... the movie When Harry Met Sally ... and he would go to the end of the book and read it, and then start it. That's how he did. My wife does that. So, we often joke ... the movie When Harry Met Sally ... if you don't know it, it's about two friends who got to know each other, and then they after a lot of time, they wound up being together. Well, that was my wife and I, we were friends for a long time.

Mike Alkin: And in the movie, Sally orders ... she's a real pain in the neck when she orders her food to where people just look and notice and say, "Oh my God." Well that's my wife, and she also ... and Billy Crystal is the one who went to the back of the book. So, my wife does both. She likes when she orders, me and my kids just put our head down because it's got to be a certain way, and we're in a restaurant. It's a joke, right? We all laugh about it. But she also likes to know the ending first. So, here I am under a lot of pressure to tell everyone what's going to happen but I'm not giving it up. And my kids are doing the same thing. So, I'm holding tight. But again, Blacklist, I can't recommend it enough.

Mike Alkin: I'm going to touch on baseball and my Mets have imploded. I think three weeks ago you would have heard me say how excited I was. Forget it. It's over. Feedback? I got some feedback. Some guy said, "Hey look! Stop with the personal stuff. You're not Frank. Frank does it better." Awesome. That's great. Like I said, there's a lot of other podcasts out there that you can listen to. This is my time to help educate you on my time, on my dime, and I hope you do all find it valuable. So, if you're unhappy with the personal stories, I apologize for that. You can fast forward them. You don't have to listen to them. But I kind of enjoy sharing them and by the way, the overwhelming feedback I get on them is they get a kick out of it.

Mike Alkin: Anyway, let's move on to stock stuff. Earnings are in full swing. As of now ... today's Monday ... but eighty-one percent of the

S&P have reported earnings. Equity ... I mean, again ... blowout earnings, blowout sales, fantastic. The market finished mixed. S&P and the Dow lost about twenty basis points or two-tenths of one percent every basis point. When you hear me say basis point, by the way, it's 1/00th of a percent. So, the Dow and the S&P lost twenty basis points or two-tenth of a percent. And the NASDAQ, which is pretty tech heavy, had some good earnings ... was up about one point three.

Mike Alkin: A lot of news for investors to digest last week. We saw the policy director from the Fed. He got the unemployment situation report for April, which was good. And like I said, corporate earnings were coming in in full swing. It's one after the other earnings call after earnings call after earnings call. But the Fed basically came out and they left rates intact. The Fed funds rate, they left it unchanged. Their target rate of one and a half to one and three quarters percent. But they did lay the groundwork for a rate hike at the June meeting and they did leave the door open for another one to two hikes before the end of the year.

Mike Alkin: During the week there was a crazy conference call, the Tesla call. If you follow financial news you might have heard of it. Obviously it's a stock that just draws tremendous emotions on both sides, both from the bulls and the bears. Elon Musk is a lightning rod. Some people love him, some people hate him. The bulls will tell you that it's not a car company, it's a tech company, and the stocks had a tremendous run. And he's quite the entrepreneur. He's done a tremendous job, right? He started this thing from scratch and look what he's built. People think it is ... that those who think it's an automobile company get it wrong. It's a tech company.

Mike Alkin: I'll talk further some other time about my views on Tesla and what I think. I don't want to get into a Tesla analysis right now. But I will talk about the conference call. On the conference call ... if you haven't listened to it or read the transcript ... I suggest you do so. I've been listening to conference calls ... earnings calls. I've sat in with ... I can't ... thousands of CEO meetings, one on ones and group meetings, and conference calls. This is near the top of you've got to be kidding me.

Mike Alkin: So, Musk was very dismissive. Normally ... and this is interesting ... because normally the way this works is the cell site analysts are typically, typically more promotional. They're more of the cheerleaders for the company. You've heard me talk about this before. Or if you haven't ... when you look at the number of actual sells from the investment banks on a company ... the number of

sells might be five, six, seven percent. When you see a hold on a stock ... when the rating has a hold ... that typically means, eh, it might mean sell, it might mean not, but they're afraid to come out and say that because they don't want to damage the corporate banking relationships with people ... with the companies. It's hard if a company is doing a merger and acquisition deal, it's hard to do ... if they're looking to raise equity or raise bonds ... if your analyst at the investment bank is out with a negative rating, you're probably not going to see that business. But most of them are strong buys.

Mike Alkin: So ... and typically on conference calls, normally they're very ... the analysts ... a lot of them give softball questions to the CEOs and CFOs and the rest of the management team. If they're not softball questions they may be a little probing but there's a protocol that they all typically follow. The better management teams understand that. The good management teams understand that, hey, you're going to get some tough questions. You're going to get some softballs and that's kind of how it works. But normally the cell site analysts are not there to hammer the company on the conference call. You might see that if a company blows earnings and they were left holding it but the analysts were caught off guard because management had been giving body language or they were talking publicly about how good things were. Now the analyst has egg on his face.

Mike Alkin: But in a case like this it's interesting because the Tesla bulls ... led by Elon Musk, CEO ... he despises getting difficult questions about the company. You know, obviously the bears will say the company's burning cash at a rapid rate and it is. They think they're going to need to raise equity this year and I do as well. That leaves you open ... if you're a public company and you're taking public shareholders' money and you're issuing debt, or you've got equity out there, you've got to answer questions. The format to do that is this conference call. Well, on the conference call there were a couple of cell site analysts who asked some questions. They were basic questions. It was capital expenditures and cash and just stuff that you have to ask to be fiduciary responsible.

Mike Alkin: Elon Musk cut the analyst off. He said he's done with these boring questions. He was dismissive and he wouldn't answer them. Then he went to a YouTube retail investor that asked about twenty, twenty-five minutes worth of questions ... which is great. Normally you don't get to see that. Normally companies don't do that. They don't let retail investors on the call. But it's not at the expense of avoiding the questions from the analysts. It's one thing

to avoid questions or do put a spin on the question, but to say that they're boring and they're mundane when you are a company that is bleeding cash ... you are burning through cash like there is no tomorrow. You owe investors an explanation.

Mike Alkin: The bulls ... I know you Tesla bulls are going to come out there. I'm going to get all sorts of nasty email. I don't care. I'm just telling you the way it happens. Now that protest too loudly. The best CEOs I've seen ... everyone has a short case on a company. But the best CEOs I've seen ignore it. The best way to shut a short up is to say nothing, but focus on your business. Not to spend a lot of time on Twitter, like Elon Musk does, and come out and talk about he's going to burn the shorts. They're going to get run over. He's going to get ... he's ... a short squeeze is coming. I can't think of anything more ridiculous. If I'm a Tesla shareholder and I'm stepping back and saying, "Wait a second. This guy hasn't met a production number in forever. Okay. He builds a nice car and I know a couple of friends of mine have them, they love them."

Mike Alkin: Again, I'm not getting into that. Is he revolutionary? Maybe. But we're not going to get into that debate. But what I am going to get into is the way you conduct yourself on the call and what you owe shareholders and history. If history doesn't repeat it often rhymes. The fact that this guy is so obsessed with short sellers ... when on the very same conference call he says, "If you're worried about the short term movements in my stock then you shouldn't own it." Well, if you can make that statement then don't worry about what the shorts say because if you produce day after day after day and deliver on what the expectations are, the shorts will get run over. Because you'll do it. You'll produce. It's just ... I can't recall seeing such an absurd conference call.

Mike Alkin: At some other time I'll get into my view on Tesla and the numbers and all that stuff. Am I bearish? Yes. Do I think they're a car company, not a tech company? Yes. Do I think they're going to have to come to the market to raise capital? Yes. But if I'm a bull and I see ... like on Twitter, it's unbelievable the worship there is for Elon Musk and the shameless promotion and the childish tweets that come from him. The thin skin that he has. Warren Buffett said something during the week and it wasn't complimentary towards Tesla or Musk and then at the Berkshire Hathaway meeting yesterday he said something about having competitive motes and Elon Musk wouldn't want to compete against us in the candy business. Well, alright because Berkshire Hathaway owns See's Candy, one of the storied old candy brands.

Mike Alkin: Well, shortly thereafter Musk is out saying he's starting a candy company and he's going after Buffett. It's just ridiculous. Run your company. You're a brilliant guy who started a company or had the vision to start a company. Maybe you're [inaudible 00:14:16], maybe you're not. But you had the vision to start a company. You've created a vehicle that no one else was putting out there. And now you're starting to compete against a lot of people, block and tackle. Block and tackle and don't worry about promoting and don't worry about trying to burn the shorts. Because all you're doing is giving the shorts more conviction. And it's stunning to me. So, anyway. That's my rant on Tesla.

Mike Alkin: Okay, let's just get to the earnings. Like I said, eighty-one percent of the companies in the S&P have reported results. Seventy-eight percent of them are reporting earnings above estimates. That's good. Above the five year average by quite a bit. It's the best number ... the seventy-eight percent ... if that holds for the other nineteen percent, we see that ... of the S&P 500 companies, it's going to be the most number of companies since FactSet started tracking this back in the third quarter of '08. So, here we have twenty-four percent earnings growth in the first quarter. We have eight and a half percent sales growth. Excellent, right? Great news abound. And for the week stocks finished mixed, as I said in the top. Dow and the S&P lost two-tenths of a percent and the NASDAQ was up one point three. So, I'll continue what I keep saying. Stay cautious. The market is telling us something and this [inaudible 00:15:47] earnings I think has been priced in. I think bulls have to ask what's next.

Mike Alkin: Turning to the interviews ... I think you know if you've been listening to me for a while. And if you haven't I'll share with you, I love investing in deep cyclicals, whether it's on the long or the short side. I think that it's a great opportunity to take advantage of where the narrative has been extrapolated too far into the future. Oftentimes that's where change is taking place, especially in elongated cycles; bull or bear cycles. Oftentimes the industry experts and investors who know this base extremely well have been burnt or they've been overjoyed, depending on what side that you're looking at. Oftentimes the bad times are extrapolated out too far, as are the good times. So, I have two guests on today. One is a CEO of a company and the other is someone who writes research about an industry, but both deeply cyclical.

Mike Alkin: My first guest though is the CEO of a uranium mining company, an African uranium mining company. It's Daniel Major of GoviEx. Like I said, GoviEx is not only a company in the industry of

uranium that's out of favor, but because of their locale, Africa, it's out of favor. [inaudible 00:17:03] risk off periods. People don't want to own uranium minors. They really don't want to own African uranium miners. But we're going to talk about. So, with that, Daniel Major, welcome to the podcast.

Daniel Majors: Mike, it's a pleasure to join you.

Mike Alkin: Great. So, Daniel, I have to say since you and I started talking probably over a year ago, we've seen a lot of the things that we were talking about in terms of catalysts needing to occur, starting to happen. So, why don't you just ... let's talk about from Daniel Majors' viewpoint, the state of the uranium industry. Where are we at right now?

Daniel Majors: No, I wished it was [inaudible 00:17:45]. But I think ... yeah. You and I have always talked about the big picture to start with. We've always said, you know, the long term demand is there, the supply is going to struggle to keep up, predominantly because of the unit cost of new entities trying to come on stream. We're going to have a supply gap. I think, unfortunately, what's been affecting the industry in general is that that gap on inventory has just held tighter for longer than we expected. We have seen inventories gradually being squeezed in various parts of the market. I think we've seen that the production cuts that we were forecasting, that they have not come as hard and as fast as we thought they would be because long term contracts have held out. But I certainly think coming into 2018, we're starting to see some real green shoots out there and some real potential changes that I think are going to make the uranium market pick up in the second half of this year.

Mike Alkin: You know, Daniel, it's interesting. One of the things that I find fascinating about the uranium market ... and if we think about the market, it's opaque. It's complicated. If you think about most commodities you can go and find a futures contract and it's heavily traded. Uranium has a futures contract and it hardly doesn't trade at all. Very few people can take physical delivery of uranium. But the market ... everyone focuses on the spot market. The spot market is very, very thinly traded and infrequently traded. The major buyers, with the exception of the brokers who are trading for their own account ... it's really, when it moves, it's the utilities that come in to the market that are really going to move it.

Mike Alkin: We talked about contract expirations. You know, you saw heavy contracting taking place in '07, '08, '09, '10, even '11. You saw a hundred and fifty, two hundred million pounds contracting

at those periods. Those contracts were seven to ten years. Then you've had the carry trade, which you've seen some of the shorter ... because low interest rates, you could get the banks or the brokers to really, if you're a utility, you'd get them to carry some of the uranium for you and they have very low interest cost then. So, you saw the term come down maybe you'd see three, four, five year deals. But it's a market where people are focused on the spot price of uranium moving.

Mike Alkin: And, you know, as I think about it ... I want to get your view on this ... as the spot market will move when the utilities come in in size, and it's not going to really move much based on the trading of the broker's mind back and forth. That's when I look out to 2020 and I say, "Wow. There's thirty to thirty-five percent of these contracted needs by the utilities ... or these uranium needs by the utilities not under contract." The fuel cycle is a couple of years. It takes eighteen to twenty-four months ... two years out. And so, they need to come into the market. As you look at the waterfall of expires on the contract side and you look at the time compression between now and 2020, they're going to need to start to come into the market.

Daniel Majors: Yes.

Mike Alkin: So, talk about that if you can. Because I think ... my view, Daniel ... is price trails the fundamentals versus [inaudible 00:21:28]. [crosstalk 00:21:29]

Daniel Majors: I don't totally agree with you there. I think you've got to remember ... you're absolutely right. There are two parts to this market. They do tend to feed off each other. One of the reasons that there is not much of a term contract out there at the moment has been that guys had inventory. They had access to surplus material because we went into a period of surplus. You saw a steady move into shorter term, mid-term contracts and spot contracts going on.

Mike Alkin: Mm-hmm (affirmative).

Daniel Majors: Therefore, you know, the utilities didn't need to secure long term contract for a while.

Mike Alkin: Right.

Daniel Majors: One, because they already had it. Two, there was so much material around that there wasn't the concern that you weren't going to have the material to meet your, you know, your fuel cycle schedule. And so, I think you still have to be cognizant of what the spot

market is doing. We'll come back to the contract market because I think it gives you a different set of drivers. But I think the one point is going to be is the utilities will move heavily towards the contract market when they start to see the spot market tightening up in front of them.

Mike Alkin: Mm-hmm (affirmative).

Daniel Majors: I think the point that was made by [inaudible 00:22:45] UXC [inaudible 00:22:46] in their recent presentation as reported in Madrid, is actually when you look at what's available material-wise ... we always know there's been a big inventory. You and I have discussed ...

Mike Alkin: Yeah.

Daniel Majors: In 1990 it was two point eight billion. When people were getting angst about one point four billion last year, we're like, "Guys, it's half what it used to be." I mean, be careful. What you've seen is guys with those long term contracts having their positions. They didn't need to be in the spot market. But that spot market has tightened up.

Mike Alkin: Yep.

Daniel Majors: Total trade going on is less than half the total uranium being consumed every year. Seventy-five percent of all trades on the spot markets are between traders. They're just moving material [crosstalk 00:23:36] amongst themselves and making a margin where they can. But I think that's where things like what's going on at the moment in Kazatomprom, Section 232 ...

Mike Alkin: Yeah.

Daniel Majors: And some of the supply issues are about to come into the market are all going to suddenly start to affect more aggressively that spot market trade that's going on there.

Mike Alkin: And that's what I said. I think we actually do agree; in the sense that the spot will move but it will move when the utilities start to come into the market. Right? Because historically when you look at it, they're the tail wagging dog. Because the utility buyer, in my experience and looking at the numbers going back years and mapping out when inventories are increasing, inventories are increasing when price is going up. It comes down to ... for me, I think about what are the power of incentives? Right? What's the incentive of the utility buyer? Is it to call the bottom on uranium

or call the top or call what the price forecast is? No. I don't believe so. I believe the incentive is to secure supply. If you don't have security of supply then all the rest doesn't matter ... and because it is such a small portion of the overall cost to operate one of these things, uranium. It really doesn't matter. They just don't want to be an outlier.

Daniel Majors: I think what has been ... sort of the sense we've been getting talking to the utilities ... is everybody understands this market's going to tighten at some point.

Mike Alkin: Yep.

Daniel Majors: They themselves are using the spot market as a guide because the it's only place you're actually going to see any kind of movement. That'll be the first signal for them that the market is starting to tighten up. While we're looking for our offtake for our own projects, you know, the utilities are saying, "Guys, you know, we're not actually active at the moment. Not because we don't know there's a problem coming but it's right to actually just do nothing until we see momentum. But as soon as we see momentum, we are definitely talking to you about long term contracts because now we know the market's tightening."

Mike Alkin: Exactly. If you think about it ... so, they're ... to me when I think about that mentality, they know it's coming but they're not willing to go in there ... so, what I said is price moves the decision making. Right? They're looking at price versus focusing on the fundamentals. Because if they were really focused on the fundamentals and they could do fourth grade math, which they can ... and they can see the amount of primary mine supply coming out ... those are the cuts that are announced. What are we ... we're talking the sixteen million pounds from the McArthur River. We're talking the ten percent cut last year from Kazatomprom. We're talking the agreement on them not to increase production from the Kazakhs for three years. We're talking the Kazakhs having the marketing arm, being in the spot market now, being able to buy. [crosstalk 00:26:33]

Mike Alkin: And the DOE, the secondary sales now putting three million pounds ... two and a half, three million pounds ... into the market. So, all of that's positive. But then you have to look out because when we think about uranium mining, you have to think in terms of dog years. We'll get to [crosstalk 00:26:49].

Daniel Majors: Just go back to one of those. I think that's where you've got to be

careful about supply cuts. Yes, Cameco's cut mine supply but they haven't cut uranium supply yet.

Mike Alkin: Yep.

Daniel Majors: That is exactly the point. The supply cut from Cameco hasn't happened yet. I think that is what is going to start to move this market.

Mike Alkin: Absolutely.

Daniel Majors: I've been saying, you know, out talking to investors, "Don't expect to happen in the first half," which is clearly what isn't ... exactly what's happening is they will clear down inventory first. Why? Because they paid for it. They've got cash sitting there on the ballot they've used up. They need to recover their cash to strengthen their balance sheet. Why would you leave inventory sitting there? So, they're clearing out. This new transaction they've got with Iran, where they've got five point four million pounds [crosstalk 00:27:37] squeeze that inventory even faster. They've made it clear that they only want to have something like thirteen to fifteen million pounds of inventory left, which is kind of where I thought they would sit.

Mike Alkin: Yep.

Daniel Majors: It's mined just in case they have an accident and they need, you know, a problem and they've got to meet their demand. But you can ... back to available thirty-five million pounds in the market, if Cameco come up at the end of this year and suddenly say, "We need five million pounds of uranium and we want to do it in second half of the year," that's the equivalent of buying ten over the whole year, you know. And there's a thirty-five million pound surplus in the market with what's sloshing around, it's not going to take very long for the market to tighten.

Mike Alkin: And they've made clear that they need to be in the market for about half ... you know, about eighteen million pounds. That's a lot of uranium that has yet to have been bought in the spot market. So, that's like, in the near term, right. That's the noise. So, you can see it developing. If you're a buyer in the market, you can see that developing. But to our point, the utilities don't act until they see the price move. And so, there's not a lot of forward thinking that's going into that. It's waiting for it to ...

Daniel Majors: Well, it's a double edged sword. If you're ... let's use Cameco as a good example. You're Cameco, you are not going to want to put out

a contract at the current price.

Mike Alkin: Absolutely.

Daniel Majors: Because what is contract market about? Contract market is about replacing your own resources. Getting paid a uranium price that's big enough to pay for your operating and capital and your expiration costs. That's what your contract market is all about. And so, at the moment you've got a public contract market out there, you know, quoted by UXC at thirty-one ... thirty, thirty-one ...

Mike Alkin: Yep.

Daniel Majors: Cameco's well, "There's no way I'm giving it up at that, guys."

Mike Alkin: There's no chance.

Daniel Majors: "I've got a [inaudible 00:29:30] at forty-four, forty-five. I want at least forty-four, forty-five before I'm going to have a conversation with you."

Mike Alkin: Exactly. So, what I'm saying ... yeah. So, why would you as a buyer ... Cameco has said on the conference call, "We don't have the option of being uneconomical." And quite frankly, shareholders would go out of their mind if they're selling the highest grade uranium in the world at these prices. Why would ... it doesn't make sense to me.

Daniel Majors: It's not in a buyer's interest as you can appreciate, to suddenly say, "I'll pay you a hundred percent, fifty percent more." Which is why we come back to the spot market and Cameco's actions in the spot market ... I think the Section 232, once that clears up, whatever way it clears up ... it will allow the U.S. utilities ... I mean, if you look to the first half of the year and you were reading the weekly reports, you rarely saw a U.S. utility in the market buying.

Mike Alkin: Absolutely.

Daniel Majors: Completely absent. I'm now starting to see the word U.S. utility turn up a few times in some of the trade reports. But, you know, that absence has not helped the spot market either. They are predominantly quite big spot buyers. So, I think we are starting to see those bits come through. On the supply side, I think the two we've got to watch out for still is Kaminak and the other one that's being pre-announced it Paladin. Langer Heinrich.

Mike Alkin: Absolutely.

Daniel Majors: If they're already talking about it publicly, it probably means within the next three months it's gone. Now the combined two of those is worth what? Eight million pounds a year?

Mike Alkin: Yes, it is. And also let's look a little further. When I said earlier about dog years, right? These are the mine supply. So, that's the mine supply that the market knows is being cut, right? They're focused on what is being cut now … the McArthur Rivers and the Kazakhs and Langer Heinrich and the others. But in the dog years as we look out and we start to think about Ranger stock piles being done in 2020, right. Kaminak, which is in your neighborhood this year, in '23.

Daniel Majors: Yep.

Mike Alkin: And then we look at Rössing, another big mine in Namibia. That's done in 2025. Cigar Lake, the monster up in the Athabasca Basin, owned by Cameco. That's done in 2027. Right?

Daniel Majors: You've got twenty percent of world production going out in the next five to ten years.

Mike Alkin: That's right. So, when you think about five to ten years in uranium mining, where you are right now and you have these forty-some odd projects that are proposed projects that basically, they're not being advanced. Licensing, permitting, construction obviously. Who would do that? Who would spend money to do that when you have this type of pricing? So, that can creep up on you. Those closures can creep up on you pretty quickly.

Daniel Majors: Yeah.

Mike Alkin: And what I was trying to say to you before about price lagging and the market being unusual is that you don't have a set of uranium buyers that are … they're taking their cues from the spot market, right?

Daniel Majors: Yeah.

Mike Alkin: And rather than anticipating where the spot market's going, by all appearances and by past behavior, they wait until all of the events that have occurred occur. So, if you think about stocks they tend to discount out what's in the future. Let's anticipate if it's widely followed. They're anticipating what the future will look like. Here it's … even though we know it's coming, until it happens we're

not going to see it. To me it's very narrow. It's not seeing the forest for the trees in my opinion. So, yeah. Inventories, secondary supply, we're starting to see a lot of things that are starting to change. I want to switch gears, talk about GoviEx.

Daniel Majors: Mm-hmm (affirmative).

Mike Alkin: You know, I mention to my listeners a lot when I talk about uranium and the markets in general. There's risk on and risk off. Right. Risk on is things are going well, people trade up and take more risk. Risk off, you know, people are cautious. They run away. Well, clearly for the last seven years uranium investment sector has been risk off. And then you take it to another level because not only is it risk off, but then people start to look at emerging markets and they think of Africa. It's really risk off because they're scared. Right. So, not only do they not want to own uranium companies, they don't really want African uranium companies. But as this starts to change ... and we've seen from past history as the cycle has churned, things start to change. Let's talk about GoviEx. You are a Nigerian based uranium miner. You have two licensed projects. Your flagship Madaouela project, which is Niger, and then you have Mutanga in Zamibia.

Daniel Majors: Zambia.

Mike Alkin: Yeah, Zambia. What did I say? Zambia?

Daniel Majors: Zambia, yeah. It's the one next door. [crosstalk 00:34:12]

Mike Alkin: I was thinking Namibia when I was saying ... in Zambia. You've got this development pipeline and then you've got Madaouela undergoing project financing. Give an overview for listeners of what GoviEx is and where you are and what you do, and then we'll dig in a little bit further.

Daniel Majors: Yeah, no. Absolutely. I mean, GoviEx is an African focused, [inaudible 00:34:30] but for uranium only. It has three projects. Current resource on the ground is two hundred and thirty million pounds of uranium makes about one of the top four or five uranium companies from a resource based point of view. Two of our projects, as you've already said, are fully permitted and ready to go. All of our projects have considerable expiration upside. We basically stop drilling when we already had defined projects and didn't see the point of wasting shareholders' money just continuing to drill. And we're already working, as you say, moving the primary project forward. I think the key, as you were saying earlier, about, you know, ten years of supply coming off and time

to react. Well, that's what it takes to get a permit in places like Canada. Ten years. So, you know, if the market is changing, a lot of the companies that are out there who most people will recognize name-wise, won't be able to respond to the market changing, whereas GoviEx is one of those companies that can respond to a changing market.

Mike Alkin: So, let's talk about your flagship. It's Madaouela. It's in Niger. It's about eight kilometers from [inaudible 00:35:40], Kaminak. Talk about the project. I want to talk about the mine life. I want to talk about your production cost, your operating cost. I want to educate listeners ... the difference between your cash cost and what your all in costs are.

Daniel Majors: Yep.

Mike Alkin: Let's dig in to Madaouela. Now it's got a twenty-one year mine life.

Daniel Majors: Correct.

Mike Alkin: And I think you're going to need somewhere along the order of three hundred and sixty million dollars in pre-production capital to get that mine running.

Daniel Majors: Yep.

Mike Alkin: Typically you'll finance one of these things heavily with debt and then the rest with equity. How are you thinking about that?

Daniel Majors: Absolutely. It's a three sixty bill. We're expecting two-thirds of that to be debt financed and one third of it to be equity. I think that's what when people talk about risk, you know ... most people have this sort of terrorist risk perception or something else. I'm like, "Guys. We're building mines. What is your risk? Your risk is finding a decent resource." Well, we have over a hundred and twenty million pounds, we can just keep drilling all the way down to AREVA because we're in the same oil body as AREVA and expand the resource well over twenty-one.

Daniel Majors: So, you've got a resource. All the infrastructure is there. So, it's not at a region that has no infrastructure. You know? All of the infrastructure is already there. Permitting risk. We're already permitted. So, you know, that was done in six months. The last one is how do you finance your project? The project finance market globally is broken. There is no such thing as the old project finance banks around. Most of them shut up shop after 2008 and the losses

they made during the period.

Daniel Majors: So, I think that's where we're able to turn around and say, "Hey guys. Really look at Niger. It's a country that's been mining since 1971." We've already got expressions of interest from banks and ECAs for an export credit backed debt for about two hundred and twenty to two hundred and forty million dollars, subject to the loss conditions, which we're putting to get the final feasibility study, getting the offtake contracts into place, and then finishing their due diligence. But, you know, that to me is what risk is in our industry. Can you get a project, find it, develop it, and finance it? And you look around the world, mining companies have generally, unless owned by a major, are having to use equity to finance their projects.

Mike Alkin: So, you have a cash cost of about twenty ... I'll round up a little bit. I think it's about twenty-five bucks a pound ...

Daniel Majors: Yeah.

Mike Alkin: And your all in cost is thirty-six, thirty-seven bucks a pound. Tell listeners the difference between cash cost and all in cost, and how you think about this? Because oftentimes, people I see that are learning the industry talk about cash cost. They ignore the all in cost. Why don't you clear up what the difference is?

Daniel Majors: Cash cost is basically what does it cost every day to dig the rock out of the ground, produce the yellowcake, and ship it off to the utility? So, add all the costs: mining cost, processing cost, transport cost, all the logistics, everything else you've got to do to run your operation day to day, that is your cash cost. Your all in cost [inaudible 00:38:47] top of it, which is how much capital do you have to [inaudible 00:38:52]? Not just the initial capital but as you're going on, you know, what have you got to put in as development capital? What costs have you got associated with replacing equipment as life goes along for twenty-one years? So, that is your all in cost. Your operating cost plus all of your capital cost for the full life of the project.

Mike Alkin: You know, and I think oftentimes, when I talk to some investors, they ignore the all in cost. It's a real cost because if you're not reinvesting in the business, you're not going to be able to keep mining.

Daniel Majors: That is one of the nice things we actually have at Madaouela is that if you look at a lot of underground mines, they have substantial development costs. You did a lot of work [inaudible 00:39:32].

You know, [inaudible 00:39:35] just mining waste all the time just to get back into the oil body and their design. That is one of the benefits that we have down at Madaouela. We start as an open pit [inaudible 00:39:46] then we go underground. When we do go underground though it's a flat lying room and filler operation. You're actually in the oil body. So, the majority of our development as we mine through twenty-one years is actually in the oil body. We treat it as waste from a scheduling point of view. But in reality and in operation you would actually have that additional uranium.

Mike Alkin: So, for people who are listening that are not really familiar with economics of mining and how it all works, so, here we are you have a cash cost of twenty-five dollars a pound but to keep the mine running and everything else, it's going to cost you about thirty-six. You need to go out to investors and do some get this project financing. Like, we talked about the debt, two-hundred twenty, two-hundred forty million, you're going to go to equity investors at the time. What ... so, you have project economics and you have the net present value that cash flow is over those twenty-one years. What's the price that you need of uranium to get that mine going?

Daniel Majors: Well, we've been looking at and started our conversation with the off takers is a low to mid-fifties price, under contract. That's what we're looking for.

Mike Alkin: Okay. And so, when we think about that ... and I just want to frame this for ... put it in contact for investors. So, here we are. We're at a twenty dollar spot price. We talked about the production costs that have occurred and then the mines that are going out of production, which is a meaningful portion of supply coming forward. Because of this price of uranium right now, new mine development is not occurring. It's not occurring as we go because it doesn't make sense to spend millions of dollars to further program, a mine, whether it's licensing, permitting, or anything else at these prices.

Mike Alkin: So, when we talk about a supply squeeze that could be coming, and we talk about dog ears of uranium, meaning that if the biggest line in the world ... or second biggest, Cigar Lakes ... in ten years is going offline plans for these other mines need to be in place right now and going and you need to start seeing construction. So, GoviEx has your permits, you have your licenses, and once you start ... once that go decision comes, which is why, you know, one make the arguments ... kind of how I view it is people think that the bulls are crazy when they say, "Well, if it's twenty now and

you need fifty, fifty-five dollars, ain't gonna happen." Well, then you're not going to get uranium. Utilities are not going to get the uranium they need and the utilities, to the point we had earlier, the inventories, they've always been this high at every cycle turn. And they've been higher. So, walk us through the anatomy of the go decision. You make the go decision and then you do this ... how long does it take you to construct your mine?

Daniel Majors: Yeah. I mean, a couple things. One of the things we're doing as well is while we're in these quiet times, we're continuing to optimize what we can. So, we've looked at membrane separation or nano-filtration as it's called as well. We've shown that we can actually recycle a lot of our chemicals. Chemical's a big component in mining. So, there are ways that you can substantially look at reducing your costs. So, we think we can probably bring our cost down by about another ten percent, both on [inaudible 00:42:56]. [inaudible 00:42:56] probably start [inaudible 00:42:58] probably about another six percent. So, you know, these are the kinds of things you can do as well while times are a little quieter.

Daniel Majors: But the anatomy is quite simple for us. Once we see traction on the price, you know, I don't need it to be up at fifty to give the go call. The starting point is effectively once I see good momentum on the price, you know, we're moving up into the low to mid-twenties, it's clearly going somewhere. It's not going to just do a jump. That will show very much by how it's going up. If it just spikes to twenty-five next week we'll probably look back at it and go, "Okay, is this the one. We're not sure." But if we see it's steady, twenty-two, twenty-three, it just keeps moving up month on month during this, you know, half to next half, we'll make that call to say, "Alright, let's get going on the final feasibility study."

Daniel Majors: That final feasibility study we've been deferring, simply because for me it's not just a 43-101. It's actually my main planning document. It's the document we will build. It's not just for filing documents. We've been holding off on it because they're not cheap. You've got to do a lot of engineering work for that final run in because it includes all of your detailed logistics, your detailed planning, your wiring diagrams and everything else that you'd want. So, get on and do it. That'll be the first call.

Daniel Majors: Then at the same time we'll put a lot more pressure on the banks to get all of our signatures off with them. We'll obviously at that point be going back to the off takers and saying, "Guys, look. The momentum's there. We're now getting going. Get on with your due diligence that you want to do. We want to have this whole thing

penciled up, boxed off, probably within a year." Assuming this momentum continues. At some point during that year as well we will then start to look for credible equity. But that credible equity will be a lot easier conversation because we will be able to show the equity side of the investment, whether that be a single at the mine investor or somebody coming in higher up or a general equity.

Daniel Majors: Here's the offtake, here's the signs where it's going to be, here's who we're talking to, this is the work we've done, here's where the debt guys are going. You're going to be the last part of the puzzle, but you will come in at the same time that the other three pieces come in. That will then close everything off in one go. We'll say, "Alright, feasibility studies done, debt's ready, offtake's in place, equity's in place, [inaudible 00:45:31]."

Daniel Majors: At the moment we're assuming two years to build but what we're also doing as part of the feasibility is looking at continually modularizing our mine. To me in the old days modular just meant one or two or three of the same thing. Instead of one big thing you'd have three or four of them, so you reduce your risk. It's changed a lot since what you can do now is buy pre-manufactured, fairly large parts of your process plant in kit form. Actually within a container. So, in our case you can buy the crushers, you can buy the solvent extraction plant, you can buy the packaging plant, you know, all of these parts can actually be ... the radiometric sorter ... even the tanks can be bought pre-manufactured, delivered to site, and installed in a matter of hours, rather than the old days where you would build everything from scratch on-site.

Daniel Majors: That obviously removes a lot of your risk as well. Because now you're placing a lot of your construction risk off-shore. You're reducing the number of expatriates or skilled personnel that you have to bring in because you can't find them in country. That means that the local people as well are seeing that they'll be the ones finally building that mine and putting it together. It has a lot of positives in the way you can do that.

Mike Alkin: So, I want to put Madaouela in context so when it's up and running and everything's going as you've planned you'll be producing about two point six million pounds a year. I want to frame that for and help contextualize for listeners who are not familiar with the nuclear power and uranium space. If we think about the biggest mine in the world in McArthur River, we're probably talking the ability to produce sixteen million pounds a year. As we start to go down and we look at ... we were mentioning earlier ... we were talking about Langer Heinrich and we were talking about Rössing

... you know, there you're talking about four million pound-ish a year, three to four million if they were running at full capacity. They're producing less.

Daniel Majors: Yep.

Mike Alkin: But that's about what it is. So, at two point six million it's meaningful. But for those who are, "Oh, well, there you go. In three years more supply's coming online." Right? And one of the things I observe in this industry, which is very opaque and not a lot of research out there on it, is people take a data point and run with it. So, a new mine could come online at this price. Where does it fit in the grand scheme of things? There's two hundred million pounds plus that are needed when you consider all the new start reactors that are coming online. So, I want to help contextualize for investors.

Mike Alkin: We're talking two points of six, nine million pounds when you've got a lot of supply coming offline. So, while it's meaningful cash flows and everything for GoviEx, in the grand scheme of things it doesn't really move the needle from a supply standpoint. It helps. But it's not something that this mine comes online and it hurts the supply, demand dynamics that's going on. And so, to get there you have about a hundred and twelve ... Madaouela has about a hundred and twelve million pounds of measured and indicated resource ... about twenty-eight million pounds of inferred. Then your next biggest project, the Mutanga Project in Zambia, that is about fifteen million pounds or so of measured and indicated and about forty-five million pounds of inferred. That has an eleven year mine life with a little ... I think a little bit higher cost. Can you talk about Mutanga and your timeline and where you are there?

Daniel Majors: Yeah. Mutanga is kind of an interesting project because it's actually two previous projects put together. So, you're right. About fifteen million pounds measured and indicated. It's about forty-five million pounds of it third ... all that in thirds [inaudible 00:49:20]. It's a very simple, open pit heapage operation. Its cash cost is about thirty-one and it's all in cost is about thirty-seven. Whereas you look at Madaouela, where you've got about eleven or twelve dollar difference between cash and all in. It's a lot tighter at Mutanga. Why? Because you don't have a lot of capital. It's a very simple project. It's an open pit mine. Just straight on to a [inaudible 00:49:51]. It's lower grade than Mutanga but it consumes a lot less sulfuric acid. Sulfuric acid is generally one of the biggest consumables we have in our industry.

Mike Alkin: How much sulfuric acid is a percentage of your cost?

Daniel Majors: At Madaouela it's about ten percent. At Mutanga we consume a tenth, so it's almost insignificant. We have to be in Zambia, which produces sulfuric acid as well locally because of the copper mines. It's going to make it a lot lot cheaper, accessing it there. Now that project is again permitted, it's ready to go and would take about the same time to get up and going. I mean, really on that one one of the benefits we had is having two companies do feasibility studies, pre-feasibility studies. They came up with very similar results for two different projects, which makes it, you know, gives us a lot of strength and confidence that combining it together the numbers are right. Some in-field drilling on the [inaudible 00:50:50] big deposit [inaudible 00:50:51] is all that's required to really start that project up, re-cost it, and it can be going.

Daniel Majors: One of the points you were making earlier just about the size ... I mean, yes, these projects when you put them in scale, they're not Cigar Lake or McArthur River, but what they are is they're over two and a half million pounds per atom, which is what your big off takers want. So, it's meaningful enough for the big off takers to want it. They're longer life mines. You know, this is one of the problems you've got with some of the smaller ISRs in the U.S. and whatever. They're small projects. They've not got the life and they don't have the size, whereas these projects allow these big off takers to diversify their supply risk. They're able to get from a number of players.

Daniel Majors: It was interesting. I saw an analysis talking about Section 232. I think it was Duke Energy said that, you know, they do not take more than twenty-two percent of their feed from any one off taker. They spread their risk.

Mike Alkin: Just for listeners, Section 232 is ... it's a ... the Commerce Department ... energy fuels and UR energy to U.S. miners, petition the Commerce Department under Section 232, which would ... they're asking the U.S. Department of Commerce to force the U.S. utilities to buy twenty-five percent of their uranium from U.S. miners. Right now it's a tiny, tiny portion that they buy. The U.S. imports almost, almost all of its uranium from outside sources. So, that's what Daniel is mentioning, 232 ... that's what he's referring to.

Mike Alkin: Daniel, real quick before we end. We have to talk about this because, you know, investors hear Africa they get nervous. Right? Especially in a risk off period. Then they hear West Africa and if

people are paying attention to current events, they might get a little nervous because Mali obviously is a very tough neighborhood and Niger is also in West Africa. People worry. And they say ... and I get this question a lot about GoviEx. "What about Boko Haram and Al-Qaeda? They're out there." Talk about Niger's role in the global uranium mining space and how long they've been doing it and the importance that Niger plays for French nuclear power? If you could touch on that.

Daniel Majors: Yeah. I mean, in the moment Niger produces about eight percent of the world's uranium. It's been doing it since 1971. It's about thirty-four percent of AREVA's uranium comes from Niger. I think one of the points that, you know, investors don't understand is that within ... there is a wider security issue in North Africa and West Africa. But the one thing that you'll find is Niger, Cameroon, Chad have got this very much centralized, safe core, which is being utilized by the E.U., by the U.S., by the Canadians as a very strong base in the middle of West Africa. Because they are such stable counties. I mean, Niger has got one of the longest running democratic governments around. It's a very secular country. It is Muslim but it's very secular. It is very robust at protecting its borders. When Nigeria had its Boko Haram problems, it was Chad, Cameroon, and Niger that went in and basically helped resolve that problem.

Daniel Majors: I think the other thing we all have to realize as well is these are big counties. They are enormous in size. What you often see when you look at the sort of map ... because ninety percent of the country's got nothing in it. Security agencies just tend to cover the whole country in one color because otherwise having to try to pinpoint the little bits and pieces would be [inaudible 00:54:43] impossible. But when you've got a country twice the size of Texas, you can be at one end of it and, you know, something could go at the other end and it's so far from you that it's insignificant. It's a bit like the incident recently in Toronto. You're in Vancouver.

Mike Alkin: Right.

Daniel Majors: You're not going to worry about it because ... you know, and I think also GoviEx has made very clear, we understand the risks are there. But the other thing that we have done as a company is made sure that we localize our operations as much as we physically can. In fact, in all three countries we operate, we only have local employees operating them. We're quite comfortable with that because the skills that are available are there anyway. With a country like Niger, which has been mining uranium since

1971, using local Nigerian labor to do all of it, why do I need to bring anybody from outside to show me how to mine uranium in Niger? Quite capable of doing it themselves. That changes the risk dynamic a lot.

Mike Alkin: Talk about shareholder base.

Daniel Majors: Mm-hmm (affirmative).

Mike Alkin: Your largest shareholders and Govind Friedland … the Friedland name is well known in the mining space … and who he is and who some of the largest shareholders are.

Daniel Majors: Yeah, well, if we go down in order of them. Denison Mines is the largest shareholder. They came in as part of transaction but they've obviously got Lukas Lundin as a backer. Lukas actually happened to be the first private shareholder for Govind when he started the company up as well. You then have Govind …

Mike Alkin: Govind being the son of legendary miner, Robert Friedland.

Daniel Majors: That's right. That is why he saw the opportunity. He was living and working in China at the time, running around the streets, coughing and splattering and realized that, you know, pollution was going to be a major issue and he wanted to be part of the resolution to it. So, all of those relationships, that ability to understand the market and the business model, we benefit from being part of that wider Ivanhoe group as well. Govind's relationships with his father and his experience of working at Ivanhoe. Below that we currently have Toshiba, but as everybody will see, we've paid off our … we've paid the money for our debt …

Mike Alkin: Talk about that transaction just quickly. How you paid it.

Daniel Majors: We basically came to a settlement with Toshiba that we would pay them half of the current debt position as a uranium loan. They know that because of what's gone on in Westinghouse, et cetera, they decided to clear up their balance sheet. We agreed with them that we would settle the loan for a fixed amount. It is a leveraged uranium loan. So, as the uranium price goes up … and it was payable in 2020 … the size of the debt from a value point of view would go up, as well as the interest in uranium that would be going. So, it was a useful way for both Toshiba and GoviEx to finalize that and for us to clean up our position going forward. They had have on holiday for a week, so we're hoping to sort that out in the next week or so, final documents, et cetera.

Mike Alkin: Okay. So, we're kind of out of time right now but I enjoyed talking … I always love talking macro-uranium stuff with you. You always do a lot of your own research, which I like. It's … you've got a lot going on. Now you just need the price to move a little bit.

Daniel Majors: Yeah. A little bit of price movement would make our lives a lot more interesting. I certainly think we've kind of gone through the hard times and I certainly think, you know … reading a lot of the trade magazines as well. Even UXC, who you always have to be a little more bearish than most, is starting to show signs of optimism out there. I take that as a real positive. I think, you know, once you start seeing those guys talking some upside and some positive market and talking about how the market's tightening, it's starting to feel like, yes, we're getting to the point where this thing's ready to turn. I don't think it's going to rush off this year but what I want to see is a good, steady price trajectory over 2018 that gives us all the confidence that this is it. We can now start planning for the future.

Mike Alkin: Great. As always, Daniel, it was great talking and …

Daniel Majors: Thanks, Mike.

Mike Alkin: Be in touch soon.

Daniel Majors: Alright, thank you. Take care.

Mike Alkin: My next guest is somebody who opines on deeply cyclical industries and commodities. He's an economist and he writes research. I first became familiar with his work on Twitter. Again, if you're not on Twitter, I suggest it. I like it. I'm a big fan and I've come across so many bright people. My guest being one of them. We're going to talk commodities and we're going to talk … he's going to give me an industry that he really likes and he's going to talk about what he looks for when he's looking at either longs or shorts in the industry. So, let me bring on Peter Sainsbury on Twitter he's @PeterSainsbury7. He writes a newsletter I'm going to let him tell you about. So, Peter Sainsbury, welcome to the podcast.

Peter Sainsbury: Yeah, Mike, thanks for inviting me on.

Mike Alkin: My pleasure. I first became acquainted with your work about a year ago on Twitter, which has just a fascinating platform. I had never been really a Twitter user. I think I signed up in '09 but I never used it until about a year ago. But I saw … you know, I like commodities [inaudible 01:00:24]. I found you. I don't know

how that occurred. But as I kept seeing you tweet I kept thinking, "God, I think like this guy." We think alike and I really liked your work. So, why don't you share with the audience who you are, give your background, and what you do, and how you think about the commodity world?

Peter Sainsbury: My names Peter Sainsbury and I'm an economist by trade, but I don't want people to hold that against [crosstalk 01:00:57]. I kind of like to think of myself as kind of on the edge of the subject really. I try to take inspiration from other fields as well as economics. I think that gives you kind of a rounded picture of, you know, what the real world is like, rather than just theories that economists come up with.

Peter Sainsbury: About my background, I've [inaudible 01:01:28] I write for and materials risk. I've been doing that since about 2011. [inaudible 01:01:35] follow my passion about writing about commodities and since 2015 I've written and published two books on commodities. The first one of those is Commodities: 50 Things You Really Need To Know. The last couple of years, a book called Crude Forecasts: Predictions, Pundits, and Profits in the Commodities Casino. Real passionate area of mine.

Mike Alkin: Great. What intrigues me about the commodities sector ... and when I first started out investing I was not really focused on that. I was new in the industry and we did a lot of short selling but in more secular type businesses. But as I became more experienced in my investing career, what struck me about investing in the equities ... the underlying equities in the commodity space ... was the cycles and the peaks and troughs. The more I started to study, the more I realized it was really an exercise in human behavior and watching how people don't really recall the past and they get caught up in the emotion of the trend. I soon started to realize that, "Wow, this is a way to ..." ... and I have a contrarian bend to begin with. But it was really a way to express my contrarian view by entering that arena of human emotion. What is it about the commodity markets that fascinate you?

Peter Sainsbury: I think, like you said, there are repeatable cycles and it could be an annual cycle in the case of a particular agricultural commodity or you know, much longer term cycles driven by business cycle, structural factors like number of years to invest in a particular mine. Then kind of really thought much longer term cycles over generations have an impact on the supply and the demand for commodities. So, I think it's kind of ... what's excited me so much about commodities is that it brings together all those different

factors that contribute to cycles. Everything from [inaudible 01:04:05] economies to demographic factors, how technology changes over time.

Peter Sainsbury: I think the message that, you know, I've been trying to get across [inaudible 01:04:18] and on Twitter and elsewhere is that these cycles repeat themselves. At any one time if you can understand where you are on that cycle then you've got a good chance of understanding what the future could hold.

Mike Alkin: I always love when I'm looking at a commodity driven industry when the argument is it's different this time.

Peter Sainsbury: [inaudible 01:04:45]

Mike Alkin: Right. It tends to happen near troughs and near peaks. Why things are going to change. It's going to be a different cycle. And I get really excited when I see that. So, when you're analyzing a commodity market, what are some of the things that you look for? What's your playbook, if you will?

Peter Sainsbury: Yeah. I think it's kind of really to understand ... what really excited me is ... find markets that extreme pessimism, that everyone thinks that no one is ever going to buy that commodity again. The world's awash in that commodity and no one really needs that. Investors are throwing in the towel, everyone's sick of it. That gets interesting because then ... you can see that asking prices are way below the market value [inaudible 01:05:44]. Then what you're trying to look for is things like how are people behaving in that market. Is there [inaudible 01:05:55] security of supply issue that may be not present at the moment but could develop in the coming years. It's really trying to understand the motivations of the people within that market and how it could develop over time.

Mike Alkin: It's very similar to how I think about it and look about it. So, you're doing your analysis. You're looking at supply, demand, and inventories, all that other stuff ... what role does probability wading the analysis play for you?

Peter Sainsbury: Yeah, I think that's a really good question because I think it's a difficult thing to visualize when you're looking at prices, looking at markets. As in anything in life, you kind of need to think about what the chances of that thing happening or where the price is going up, price is going down. The trick for investors or fiscal participants in the market is to understand cycles. So, where we are, what's happened in the past, and understand market positioning. So, coming back to things like I was talking about

before in terms of, you know, is there going to be a sudden rush of people buying in a particular market. Are people fearful of security of supply issues?

Peter Sainsbury: Then kind of thinking about, you know, events that can buffet any particular market and geopolitical, central bank driven, factors. There's always a history that investors look at and when you study that history you begin to see the patterns that evolve. Then kind of a probability how the future could look based on where we are now.

Mike Alkin: It's very similar to how I look at it. I use uranium for an example.

Peter Sainsbury: Mm-hmm (affirmative).

Mike Alkin: When I'm looking at a commodity or market ... we'll use uranium ... I'm looking at if I'm wrong what's my downside? And you look back to the past. And you look back at what the supply dynamics were at the last trough. You look at what the demand drivers were at the last trough. I say, "Okay. If my thesis is wrong and we all know we can be incorrect in our thesis, we could be way too early. Whatever it may be. But what's the probability I'm wrong? How much downside do I have on that? What's my upside?" That's where I kind of look at ... you try and find where the risk is so much less than the reward. The reward is so much higher. I find that you can really apply that in deeply cyclical commodity industries.

Mike Alkin: One of the things that you do is you do a lot of writing. And throughout my career as a hedge fund person for twenty plus years, my writing really wasn't writing. It was spreadsheets and it was handwritten notes that were all over the place. But it was all in my head. You have to be really careful as an investor to not have thesis creep. Because you have a thesis, you have conviction on the thesis, but things change. One of the things I've had since I started writing the newsletter and the last while ... I'm more organized in my writing thoughts. It memorializes your thoughts and it helps prevent thesis creep. How does that factor in for you?

Peter Sainsbury: Yeah, I think that's a great habit to have to organize your thoughts. You can kind of go back to it in months, years, in the future to kind of understand what you were thinking at that time. How do events today where you were in the path?

Mike Alkin: Yep.

Peter Sainsbury: I've been using ... I call it a decision journal ... it's kind of ...

Mike Alkin: Mm-hmm (affirmative).

Peter Sainsbury: As well as my kind of public writing whenever I am thinking about an investment decision or something business related, I try and describe where we are now, where the [inaudible 01:10:25] is, just some of the factors that I'm thinking about. [inaudible 01:10:30]. Really try and when I'm at my most rational, try and decide what will I think now is a bad decision, I should get out of this. I really think you need to do that before you actually press buy on an investment or make a decision. You're at your most rational. As soon as you've vetted something, you've made a decision, emotions start to play a bigger role.

Mike Alkin: One of the things I see ... on Twitter I see it a lot ... is people will put out ... they're tweet something that a so and so investment bank raised their rating and price target or lowered their rating and price targets. I personally in my career ... and I learned early on that that's worth about the paper it's written on. I don't think the analysts are not bright people. I think they're very bright. But one of the things ... and you and I have always spoke ... is it's so important to understand the power of incentive. Whether it's an analyst writing a research report or whether it's speaking with a buyer in a given commodity, how are people incented? What motivates them? How do you think about that when you're incorporating that into your analysis?

Peter Sainsbury: Yeah. I think that's a great point. [inaudible 01:12:03] Twitter ... you see so many people saying, "So and so said this. This investment bank is forecasting this to prices." The first point to make is it's very easy to see that in isolation. Yeah, they must know what they're doing. Follow their lead. But the reality is ... like I said, they're smart people but forecasts tend to be very badly wrong even in, you know, more [inaudible 01:12:35] markets like the oil industry. Then yet I [inaudible 01:12:40] incentives and if you think about purely like an investment bank, you think about why are they putting this forecast out to the public domain? It's to prophesize their services. They're selling consultancy services and investment banking services to their clients. So, you need to be aware of why they're doing this research and who they're actually trying to benefit.

Peter Sainsbury: Then I think it's ... thinking of things like sometimes you see a range of different forecasts on a particular commodity and there's a consensus ... you see someone jump out in extreme forecasts. You have to ask yourself, why are they putting out that extreme forecast? In the past it's tended to be they just want publicity. They

get some news coverage and everyone's talking about them. But then in six months, a couple years later when that forecast … you know, it may happen but it probably hasn't happened … people tend to forget about them. Then they still get invited onto national TV to spread their next forecast. Incentives are very powerful and everyone needs to take those into account.

Mike Alkin: When I'm looking at different commodity markets, what I find interesting is it's almost like a pyramid in terms of information flow and pricing. Meaning, I find that the more opaque and complicated the market, the less efficient it tends to be. I use uranium as an example, where it's the most complex market I've ever analyzed and also the most opaque market I've ever analyzed. If you take the time and the effort to really drill down into the fundamentals, what you realize is that the narrative is quite disconnected from what's happening under the surface.

Mike Alkin: How do you think about market liquidity and information that's out there when you're looking at all these different commodity cycles? I'll make it up but frozen oranges or cocoa or whatever and things that are less liquid. How do you think about that?

Peter Sainsbury: I think it's narratives that can last a long time and can persist for a long time. [inaudible 01:15:25] [crosstalk 01:15:27] Electric vehicles. [inaudible 01:15:37] [inaudible 01:15:41] narratives are very powerful. They connect a forecaster or someone who's telling the story with where this will deeply [inaudible 01:15:49] needs. We feel as investors or buyers and sellers in a particular market and … the danger is that these narratives are held perhaps too tightly and you ignore the evidence that runs contrary to that narrative. That works both on the prices are high and prices are low as well.

Peter Sainsbury: You really need to have … have a strong stomach I think to really kind of, you know, step away from the herd and just take a step back and think what is actually happening here. Step away from that narrative and not become beholden to it.

Mike Alkin: Well, that segues right into my next question, which is the thing that for me it's always difficult to balance, is being a contrarian and knowing when to ride the narrative or when to ignore the narrative. I find when you … where it really becomes difficult is when you've been … let's say an industry is at its trough and you have a variant view and it turns out you're right … the hard part is when do you sell? Because the momentum and the tidal wave of people shifting from the bear camp to the bull camp starts to really pick up speed.

Mike Alkin: It's interesting because I often read things in the newspaper that I [inaudible 01:17:32] myself. It's a big headline on something. I thought, "My goodness. Who didn't know this? It was out there six months ago or a year ago. All you had to do was do a little bit of work." But it's just really coming into the fore and that's just starting to change the narrative. You're then on the upside and you have to think about you're part of the ever-increasing amount of momentum towards the changing narrative. For me it's always a balancing act to try to figure that out. How do you think about that?

Peter Sainsbury: I think I have to tell you that's probably been my biggest flaw in the past is, you know, having a contrarian view. I find comfort in having that kind of view ...

Mike Alkin: Yep.

Peter Sainsbury: A feeling of being swept up in the market. So, you know, in the past I've been guilty of standing out of a position much too early than I perhaps needed to. So, I think it's a recognition that you're trying to ride that narrative like a trend.

Mike Alkin: Yeah.

Peter Sainsbury: Spot the signs near the top or if you're short signing you're near the bottom and you have to step off before that narrative I discredited. It's very tricky.

Mike Alkin: It is. It's tough, right? What I've tried to get better at over the years is when you're a contrarian and you're going to have a variant view or your work leads you to that ... not have a variant view for the sake of having one. But your analysis and research leads you to do having that variant perception. So, when you're doing that you're in the weeds. You're digging down, right? And then all of a sudden ... what I've done over the years and I'm still not masterful at it at all ... but I try and as it's starting to turn that's when I try and take myself from the weeds and it's as though I'm trying to float up to the top of the room and looking down and saying, "Okay, now what are all the people saying?" I'm looking at it in my mind's eye saying, "Where are we? Where on the scale of enthusiasm are we?" It's hard but ...

Peter Sainsbury: I think that's where things like, you know, decision journal [inaudible 01:20:06] documented in advance kind of what you're thinking now and when you want to step off that.

Mike Alkin: Right.

Peter Sainsbury: On the upside or the downside.

Mike Alkin: Absolutely. If we think about a market right now that you're looking at that you think is priced where the narrative is incorrect, you want to share one?

Peter Sainsbury: Yeah. I'm quite ... I kind of possess some comfort in looking at markets that have some deep cyclical markets that have evolved over a long time. One I'm kind of looking at the moment is just the Potash market.

Mike Alkin: Yeah.

Peter Sainsbury: It's got similarities to many other longer term markets as well ...

Mike Alkin: I don't mean to interrupt but for those who don't know, Potash being a fertilizer. [crosstalk 01:21:01] And the most expensive of the fertilizers.

Peter Sainsbury: Indeed. Yeah. So, yes, supply's concentrated in, you know, free countries. Canada, Belarus, Russia ... they cover more than sixty percent of the market. Prices, you know, peaked around ... nine hundred dollars a ton back in late '09, currently around about a third that level. They're starting to pick up, starting to show signs of blossoming out. There was recently a [inaudible 01:21:37] in Belarus back in March and that kind of put a bit of a shock into the market. The sort of recognition that the other mines are running at full tilt and, you know, [inaudible 01:21:54] demand for higher protein agricultural products in Asia is still a thing that's running.

Peter Sainsbury: And so, these countries are going to have to buy back into the market to secure that fertilizer. I think it's an interesting market that's starting to find a bottom and while I would not necessarily suggest prices could go back up to levels of '08, '09, this frequent, you know, mine collapses and floods, really sent a rocket through the Potash market. Every so often something ... when you're thinking about it in terms of asymmetric bets, we've talked about in the past, I think this is potentially one that looks quite promising

Mike Alkin: I tend to find in commodity markets that are highly concentrated in supply ... I've come to expect the unexpected.

Peter Sainsbury: Mm-hmm (affirmative).

Mike Alkin: Whether it's a flood or whether it's a behavior that can try and control pricing. It's something to always be on the lookout.

Peter Sainsbury: [inaudible 01:23:10]

Mike Alkin: One of the things that I have evolved into over the years ... you know, when I was a younger guy it was sports page first. I still read the sports page but you know, as you get into early in your career years it's reading the business papers and the FT and the Journal and so forth. But as I've grown as an investor and as a person, my travels from an investing career have taken me all over the world. What's also changed a lot and I think has helped me as an investor is I've become much more well read about topics way off of investing. Whereas in the first years of my career if I was on a plane somewhere I was reading a financial analyst book or something like that. Whereas now I'm reading about current events and history and everything else under the sun away from investing. But I think that opens me up to be a better investor. What do you read? How do you think about it? How do you incorporate stuff outside of what we look at every day?

Peter Sainsbury: Yeah. That's a great question. I think it was in the past just reading lots of economics type books that kind of in the past have reiterated perhaps what I already knew I was interested [inaudible 01:24:36]. Recently I've tried to read much more widely ... tried to gain a much better understanding of math's' and probability, technological developments, how things have evolved over time and where the future can take us from a resource investing point of view and how geology and how it works and why that's so relevant when you're thinking about individual companies.

Peter Sainsbury: So, yeah, I think it's ... perhaps one other thing to add to that is looking at fiction as well, reading a lot more fiction. It's very easy to become stuck in the mindset of this world we are in is how it is. If you're looking more sort of sci-fi and fiction like that can completely open your eyes. You can imagine a different future and that can rise up to opportunities which perhaps you might have been close to before. [inaudible 01:25:46]

Mike Alkin: Yep. What do you ... what's your biggest Achilles's heel? What ... for listeners, what is it that you would say, you know ... when I'm wrong I tend to be wrong this way or what is it that you know that deep in your mind that you need to be aware of when you're investing? Because we all have them. I have plenty. What is it that you think about? What's a lesson learned that you think listeners should know?

Peter Sainsbury: [inaudible 01:26:19] question. I think just to kind of know the limits of your knowledge. It's very [inaudible 01:26:30] to think

you know enough about a different market or a different sector. You think you've understood it, you know, what's going on. But you just don't. So, I think it's really to kind of ... mistakes I've made in the past were when I haven't really understood something. I think being a generalist is a great thing because it puts your mind to different opportunities in different markets. I think that needs to be balanced against understanding ... having a deeper understanding of a particular market as well. Otherwise, you kind of [inaudible 01:27:12] making mistakes.

Mike Alkin: So, how do people find you? First, about your books, how do they buy your books? How do they find your daily writings?

Peter Sainsbury: Yeah. I guess the first place ... my website is Materials Risk. That's materials dash risk dot com. People can find me on Twitter at @ PeterSainsbury7. Both my books are available on Amazon. There's an audiobook, a physical book, a Kindle book as well.

Mike Alkin: What I would like to do is because we look at a lot of the same markets is have you back regularly ...

Peter Sainsbury: Yeah. That'd be great.

Mike Alkin: We could talk through markets that are at peaks and markets that are at troughs, and maybe the next time you're on, which will be in the near future, we could kind of lay out, devote the podcast to how we're thinking about a particular market. Kind of the anatomy of analysis. Are you open for that?

Peter Sainsbury: Yeah. Absolutely. It sounds like a really good idea.

Mike Alkin: Okay. Great. Okay. So, for everyone listening, Peter's committed to that. He's going to [crosstalk 01:28:35]. No getting out of it now. But I really ... I enjoyed the conversation a lot. You know, my kids look at me, I roll my eyes when I say something most of the time. So, I think ... you know, it knocks your confidence down once in a while. So, it's nice when I'm reading and listening and I have someone that thinks alike. So, I'd like to ... I enjoy reading your stuff on Twitter and reading your website. So, I really appreciate you coming on and we will ... we're going to have you on pretty soon again.

Peter Sainsbury: Thanks, Mike. [inaudible 01:29:10] Bye bye.

Mike Alkin: Thanks, Peter. Well, I hope you enjoyed our deep dive into the world of deeply cyclical investing, both uranium and other commodities. And it's kind of where I spend a lot of my time. Like

I said earlier, it's a place where I think you can really find some asymmetry in the market. So, I hope you enjoyed it. I will be back same time next week. In the interim, have a great week and stay cautious.

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