

**Ticker:** APM CN      **Net cash:** C\$79m      **Project:** San Bartolome  
**Market cap:** C\$212m      **Price:** C\$1.35/sh      **Country:** Bolivia  
**RECOMMENDATION (unc):** BUY      **TARGET (unc):** C\$2.20/sh      **RISK RATING:** HIGH

Andean continues to accumulate free cash flow, with US\$10.3m generated in 2Q21, a 24% annualized FCF yield on its market cap and 42% vs its EV after netting out US\$79m of cash and US\$6m of marketable securities. Costs remain well controlled with H1 production tracking in line with its guidance range.

Below we compare Andean to silver peers. Andean is better value in our view, with anomalously high FCF yield, below peer average P/NAV and the highest average 2021-2022 FCF margin of the peer group. We see two reasons for the discount: 1) Andean is relatively unknown and still building liquidity; and 2) perceived M&A overhang. On the first, we expect this to narrow as Andean establishes a track record of achieving stated targets, which it has done since going public. On the second, we believe the M&A overhang is unfounded relative to peers. Several 'pure-play' silver producers have used their silver valuation premium to backfill NAV through gold acquisitions. Relative to peers, we prefer Andean, which offers better yields, has a clean balance sheet with US\$79m net cash, and has been explicit about its ambitions to become a multi-asset mid-tier precious metal producer. With a first mover advantage in Bolivia and an accomplished management team and board, we believe Andean's conservative entry valuation, ability to execute, and re-rate potential offer superior risk adjusted returns. **We reiterate our BUY rating and C\$2.20/sh price target based on 1.3x NAV<sub>5%-24/oz</sub>.**

**Figure 1. Silver comps – Andean offers superior FCF yield, among highest FCF margins**

Ticker	Market Cap	EV	NAVPS	P/NAV	EV/EBITDA		EV/Revenue		FCF yield		FCF Margin		EV/oz			
					2021e	2022e	2021e	2022e	2021e	2022e	2021e	2022e	2P	M&I	M&I	
	US\$m	US\$m	US\$/sh	(X)	(X)	(X)	(X)	%	%	(%)	(%)	US\$/oz	US\$/oz	US\$/oz		
Fresnillo	LSE:FRES	8,553	8,747	9.41	1.2x	6.2x	5.0x	3.1x	2.8x	7%	9%	21%	24%	\$6.5	\$2.2	\$1.4
Pan American	TSX:PAAS	5,332	5,168	20.90	1.2x	7.0x	4.8x	3.0x	2.5x	4%	11%	13%	27%	\$1.3	\$1.0	\$0.5
Hedra Mining	NYSE:HL	3,131	3,482	4.10	1.4x	9.9x	7.6x	4.1x	3.9x	4%	7%	18%	28%	\$6.5	\$4.8	\$1.6
First Majestic	TSX:FR	3,199	3,128	6.19	2.0x	14.0x	8.3x	5.0x	3.9x	(1%)	6%	(7%)	24%	\$19.2	\$10.4	\$5.5
Coeur Mining	NYSE:CDE	1,702	2,026	7.72	0.9x	nmf	6.9x	2.4x	2.3x	(10%)	(5%)	(23%)	(12%)	\$3.9	\$1.9	\$1.4
Mag Silver	TSX:MAG	1,766	1,701	15.35	1.2x	nm	8.6x	nm	4.2x	(3%)	8%	(223%)	34%	--	\$11.5	\$6.6
Fortuna	TSX:FVI	1,199	1,252	4.98	0.8x	4.0x	2.8x	2.0x	1.6x	5%	14%	10%	23%	\$7.4	\$5.6	\$3.9
Hochschild	LSE:HOC	1,097	1,115	2.58	0.8x	2.6x	2.5x	1.3x	1.3x	10%	16%	14%	21%	\$10.6	\$1.1	\$0.9
SilverCrest	TSX:SIL	1,100	933	8.38	0.9x	nmf	nmf	--	15.4x	(16%)	(6%)	na	(93%)	--	\$9.1	\$7.2
Gatos	TSX:GATO	908	879	--	n/a	7.7x	4.6x	3.4x	2.5x	3%	12%	11%	31%	\$6.4	\$6.1	\$4.4
Aya Silver	TSX:AYA	881	817	4.60	1.7x	nmf	55.9x	24.4x	20.5x	0%	(1%)	3%	(27%)	--	\$9.0	\$3.8
Endeavor	TSX:EDR	741	617	4.17	1.0x	10.7x	7.3x	3.5x	3.1x	(1%)	(3%)	(4%)	(10%)	\$7.3	\$4.6	\$2.8
New Pacific	TSX:NUAG	503	455	4.70	0.7x	--	--	--	--	--	--	na	na	--	\$2.9	\$2.4
Alexco	TSX:AXU	272	244	2.60	0.7x	--	5.9x	2.0x	--	--	--	--	--	\$6.0	\$2.0	\$1.5
<b>Andean</b>	<b>TSXV:APM</b>	<b>167</b>	<b>97</b>	<b>1.33</b>	<b>0.8x</b>	<b>3.0x</b>	<b>2.2x</b>	<b>0.7x</b>	<b>0.7x</b>	<b>34%</b>	<b>29%</b>	<b>23%</b>	<b>19%</b>	<b>--</b>	<b>\$4.6</b>	<b>\$3.7</b>
<b>Mean</b>					<b>1.1x</b>	<b>7.8x</b>	<b>10.4x</b>	<b>5.3x</b>	<b>5.1x</b>	<b>0%</b>	<b>5%</b>	<b>(14%)</b>	<b>6%</b>	<b>\$5.3</b>	<b>\$5.2</b>	<b>\$3.1</b>
<b>Weighted Average</b>					<b>1.2x</b>	<b>7.9x</b>	<b>5.7x</b>	<b>3.4x</b>	<b>2.9x</b>	<b>2%</b>	<b>7%</b>	<b>9%</b>	<b>21%</b>	<b>\$3.7</b>	<b>\$2.3</b>	<b>\$1.3</b>
<b>Average excluding high and low</b>					<b>1.1x</b>	<b>7.6x</b>	<b>6.2x</b>	<b>3.6x</b>	<b>4.0x</b>	<b>1%</b>	<b>5%</b>	<b>3%</b>	<b>12%</b>	<b>\$4.6</b>	<b>\$5.0</b>	<b>\$3.0</b>
<b>Median</b>					<b>1.0x</b>	<b>7.3x</b>	<b>6.9x</b>	<b>3.4x</b>	<b>2.8x</b>	<b>0%</b>	<b>7%</b>	<b>6%</b>	<b>23%</b>	<b>\$6.2</b>	<b>\$4.7</b>	<b>\$2.6</b>

Sources: Market data from S&P Capital IQ, company disclosure, SCPe NAV and financial estimates for Andean and Aya, S&P Capital IQ consensus estimates for peers

## Andean continuing to accumulate free cash flow with US\$10m added in 2Q21

**Q2:** Andean announced Q2 results. Q2 production 1.42Moz at US\$18.97/oz for H1 production of 2.9Moz at US\$18.15/oz, in line with full year guidance of 5.8-6.1M oz at US\$17.50-19.50/oz. Purchased ore accounted for 32% of throughput, in line with Q1. Andean generated FCF of US\$10.2m on revenue of US\$38.3m for FCF margin of 27%. Andean ended the period with US\$79.0m of cash, US\$0.3m of restricted cash, and US\$6.0m of marketable securities and receivables with US\$0.2m of lease liabilities.

**Exploration and tailings opportunity:** A 5,500m drilling program commenced at Rio Blanco (gold) with three drills in operation. At San Pablo, 3,580m of drilling was completed in May with results expected in due course. The second phase of this years budgeted 10,000m is in preparation. Study results on the potential to process 10Mt of silver and tin bearing tailings are guided for 1Q22.

## Why we like Andean

- 34% FCF yield is anomalously high relative to peers
- Proven operating history at San Bartolome de-risks operating component of cash flow forecasts
- Strong management team and balance sheet with capacity to build a multi-asset producer
- Able to benefit from size / trading liquidity re-rate

## Catalysts

- 2021: Production results, SCPe 6.0Moz AgEq at US\$19.23/oz AISC
- 1H22: PEA on tailings reprocessing opportunity
- Ongoing: M&A opportunity review

## Research

Justin Chan (London) M: +44 7554 784 688 [jchan@sprott.com](mailto:jchan@sprott.com)

Brock Salier (London) M: +44 7400 666 913 [bsalier@sprott.com](mailto:bsalier@sprott.com)

Brandon Gaspar (Toronto) M: +1 437 533 3142 [bgaspar@sprott.com](mailto:bgaspar@sprott.com)

Eleanor Magdzinski (Toronto) M: +1 705 669 7456 [emagdzinski@sprott.com](mailto:emagdzinski@sprott.com)

Ticker:		Price / mkt cap:		Market P/NAV:		Assets:																																																				
APM CN		C\$1.35/sh, C\$212m		0.80x		San Bartolome																																																				
J Chan / B Gaspar		Rec / PT:		1xNAV <sub>2020</sub> FD:		Country:																																																				
		BUY / C\$2.20		C\$1.68/sh		Bolivia																																																				
Group-level SOTP valuation				Share data																																																						
	1Q21E	2Q21E																																																								
	US\$m	O/ship	NAVx	C\$/sh	Basic shares (m):	157.3	FD + options (m):	159.7	FD + FF	159.7																																																
San Bartolome NPV 2Q21E	125	100%	1.0x	0.99	Commodity price	CY21E	CY22E	CY23E	CY24E	CY25E																																																
Central SG&A & fin costs 2Q21E	(25)	-	1.0x	(0.19)	Silver price (US\$/oz)	24.2	24.0	24.0	24.0	24.0																																																
Exploration	25	-	1.0x	0.20	Ratio analysis	CY21E	CY22E	CY23E	CY24E	CY25E																																																
Cash and restr. cash 1Q21E	85	-	1.0x	0.67	FD shares out (m)	159.7	159.7	159.7	159.8	159.8																																																
Debt 1Q21E	0	-	1.0x	0.00	EPS (US\$/sh)	0.083	0.137	0.107	0.107	0.107																																																
ITM options	2	-	1.0x	0.02	CFPS before w/c (US\$/sh)	0.14	0.20	0.17	0.17	0.17																																																
1xNAV5% US\$24/oz	213			1.68	FCF yield - pre growth spend (US\$/sh)	0.12	0.17	0.14	0.14	0.14																																																
Target multiples	Multiple			C\$/sh	FCF/sh (US\$/sh)	0.12	0.16	0.15	0.14	0.11																																																
Target P/NAV Multiple	1.30x			2.20	FCF margin (%)	11.3%	16.7%	13.9%	13.9%	13.9%																																																
Target price				2.20	FCF yield (%)	11.0%	15.5%	14.4%	13.9%	11.1%																																																
Sensitivity to silver price and discount / NAV multiple				EBITDA margin (%)	22.4%	30.7%	27.4%	27.4%	27.4%	27.4%																																																
1xNAV San Bartolome (US\$m)	\$20oz	\$24oz	Spot: \$24oz	\$30oz	\$35oz	EBITDA margin (%)	12.8%	17.6%	17.1%	16.6%	13.2%																																															
7% discount	84	119	116	170	213	ROA (%)	9.2%	13.3%	9.3%	8.5%	7.8%																																															
5% discount	86	122	145	183	227	ROE (%)	12.0%	16.6%	11.3%	10.2%	9.2%																																															
3% discount	95	132	149	189	236	ROCE (%)	17.8%	23.1%	16.3%	14.8%	13.6%																																															
Valuation (C\$/sh)	\$20oz	\$24oz	Spot: \$24oz	\$30oz	\$35oz	PER (x)	12.8x	7.5x	9.4x	9.4x	9.4x																																															
1.00xNAV	1.37	1.65	1.78	2.08	2.43	P/CF (x)	7.4x	5.1x	6.1x	6.1x	6.1x																																															
1.30xNAV	1.78	2.15	2.31	2.70	3.16	EV/EBITDA (x)	2.4x	1.1x	0.5x	(0.1x)	(0.6x)																																															
1.50xNAV	2.06	2.48	2.67	3.11	3.64	Income statement					CY21E	CY22E	CY23E	CY24E	CY25E																																											
2025E net cash (US\$m)	\$20oz	\$24oz	Spot: \$24oz	\$30oz	\$35oz	Revenue (US\$m)	147	146	136	136	136																																															
-10% change in opex	165	206	225	268	319	COGS (US\$m)	(102)	(96)	(93)	(93)	(93)																																															
0% change in opex	144	184	202	244	295	Gross profit (US\$m)	45	50	43	43	43																																															
10% change in opex	122	162	179	221	271	Expenses (US\$m)	-	(19)	(23)	(19)	(22)																																															
Valuation over time	1Q21E	1Q22E	1Q23E	1Q24E	1Q25E	Impairment & other (US\$m)	-	-	-	-	-																																															
Mines NPV (US\$m)	125	104	67	46	24	Net finance costs (US\$m)	3.2	-	-	-	-																																															
Cntrl G&A & fin costs (US\$m)	(30)	(21)	(23)	(24)	(20)	Tax (US\$m)	(13.2)	(13.1)	(10.8)	(10.8)	(10.8)																																															
Net cash at 1Q (US\$m)	85	116	142	165	182	Minority interest (US\$m)	-	-	-	-	-																																															
Other Assets + Options	27	27	27	27	27	Net income attr. (US\$m)	35.2	17.8	9.1	13.2	9.7																																															
1xNAV (US\$m)	208	227	214	214	213	EBITDA	13.2	21.9	17.2	17.2	17.2																																															
P/NAV (x)	0.82x	0.75x	0.80x	0.80x	0.80x	Cash flow					CY21E	CY22E	CY23E	CY24E	CY25E																																											
1xNAV share px FD (C\$/sh)	1.64	1.79	1.69	1.69	1.68	Profit/(loss) after tax (US\$m)	13	22	17	17	17																																															
ROI to equity holder (% pa)	22%	15%	8%	6%	4%	Add non-cash items (US\$m)	10	10	9	9	9																																															
1.5xNAV share px FD (C\$/sh)	2.46	2.69	2.53	2.54	2.52	Less wkg cap / other (US\$m)	1	-	1	0	0																																															
ROI to equity holder (% pa)	82%	41%	23%	17%	13%	Cash flow ops (US\$m)					24	32	27	27	26																																											
Resource / Reserve	Mt	Moz Ag	Moz Au	EV/oz Ag	EV/oz AgEq	PP&E (US\$m)	(4)	(4)	(4)	(4)	(4)																																															
Measured, ind. & inf. - Andean	4.92	23.1		3.6	3.6	Other (US\$m)	(0)	-	-	-	(5)																																															
SCPe Mine inventory	8.35	33.7		2.5	2.5	Cash flow inv. (US\$m)					(5)	(6)	(4)	(4)	(8)																																											
Production (100%)	CY21E	CY22E	CY23E	CY24E	CY25E	Debt draw (repayment) (US\$m)	(0.1)	-	-	-	-																																															
San Bartolome (000oz Ag)	5,642	6,014	5,874	5,874	5,874	Equity issuance (US\$m)	19.8	-	2.3	-	-																																															
San Bartolome (000oz Au)	5.1	4.0	-	-	-	Other (US\$m)	-	-	-	-	-																																															
San Bartolome (000oz AgEq)	6,029	6,319	5,874	5,874	5,874	Cash flow fin. (US\$m)					19.7	-	2.3	-	-																																											
San Bartolome cash cost (US\$/oz AgEq)	14.60	12.82	13.51	13.51	13.51	Net change post forex (US\$m)	39	26	26	23	18																																															
San Bartolome AISC (US\$/oz AgEq)	17.70	15.97	16.56	16.56	16.56	Balance sheet					CY21E	CY22E	CY23E	CY24E	CY25E																																											
Group (000oz Ag)	5,642	6,014	5,874	5,874	5,874	Cash (US\$m)	91	117	143	165	183																																															
Group (000oz AgEq)	6,029	6,319	5,874	5,874	5,874	Accounts receivable (US\$m)	2	2	2	2	2																																															
Group cash cost (US\$/oz)	16.87	15.20	15.88	15.88	15.88	Inventories (US\$m)	9	9	9	9	9																																															
Group AISC (US\$/oz)	19.23	16.68	17.46	17.46	17.46	PPE & exploration (US\$m)	20	16	11	5	5																																															
						Other (US\$m)	21	21	21	21	21																																															
C1 = opex (excl. G&A) + royalties; AISC = C1 + sust capex + capitalized stripping/development																																																										
<table border="1"> <thead> <tr> <th></th> <th>CY21E</th> <th>CY22E</th> <th>CY23E</th> <th>CY24E</th> <th>CY25E</th> </tr> </thead> <tbody> <tr> <td>Total assets (US\$m)</td> <td>143</td> <td>165</td> <td>185</td> <td>203</td> <td>220</td> </tr> <tr> <td>Debt (US\$m)</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> <td>0</td> </tr> <tr> <td>Other liabilities (US\$m)</td> <td>32</td> <td>32</td> <td>34</td> <td>34</td> <td>34</td> </tr> <tr> <td>Shareholders equity (US\$m)</td> <td>23</td> <td>23</td> <td>26</td> <td>26</td> <td>26</td> </tr> <tr> <td>Retained earnings (US\$m)</td> <td>87</td> <td>109</td> <td>126</td> <td>143</td> <td>160</td> </tr> <tr> <td>Minority int. &amp; other (US\$m)</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> <td>-</td> </tr> <tr> <td>Liabilities+equity (US\$m)</td> <td>143</td> <td>165</td> <td>185</td> <td>203</td> <td>220</td> </tr> </tbody> </table>												CY21E	CY22E	CY23E	CY24E	CY25E	Total assets (US\$m)	143	165	185	203	220	Debt (US\$m)	0	0	0	0	0	Other liabilities (US\$m)	32	32	34	34	34	Shareholders equity (US\$m)	23	23	26	26	26	Retained earnings (US\$m)	87	109	126	143	160	Minority int. & other (US\$m)	-	-	-	-	-	Liabilities+equity (US\$m)	143	165	185	203	220
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**NEUTRAL:** The stock's total returns are expected to be in line with the overall market

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

**UNDER REVIEW:** The stock will be placed under review when there is a significant material event with further information pending; and/or when the research analyst determines it is necessary to await adequate information that could potentially lead to a re-evaluation of the rating, target price or forecast; and/or when coverage of a particular security is transferred from one analyst to another to give the new analyst time to reconfirm the rating, target price or forecast.

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

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9	The analyst has been reimbursed for travel expenses for a site visit by the issuer	NO

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Summary of Recommendations as of August 2021	
BUY:	45
HOLD:	0
SELL:	0
UNDER REVIEW:	0
TENDER:	0
NOT RATED:	0
TOTAL	45

<sup>1</sup> As at the end of the month immediately preceding the date of issuance of the research report or the end of the second most recent month if the issue date is less than 10 calendar days after the end of the most recent month