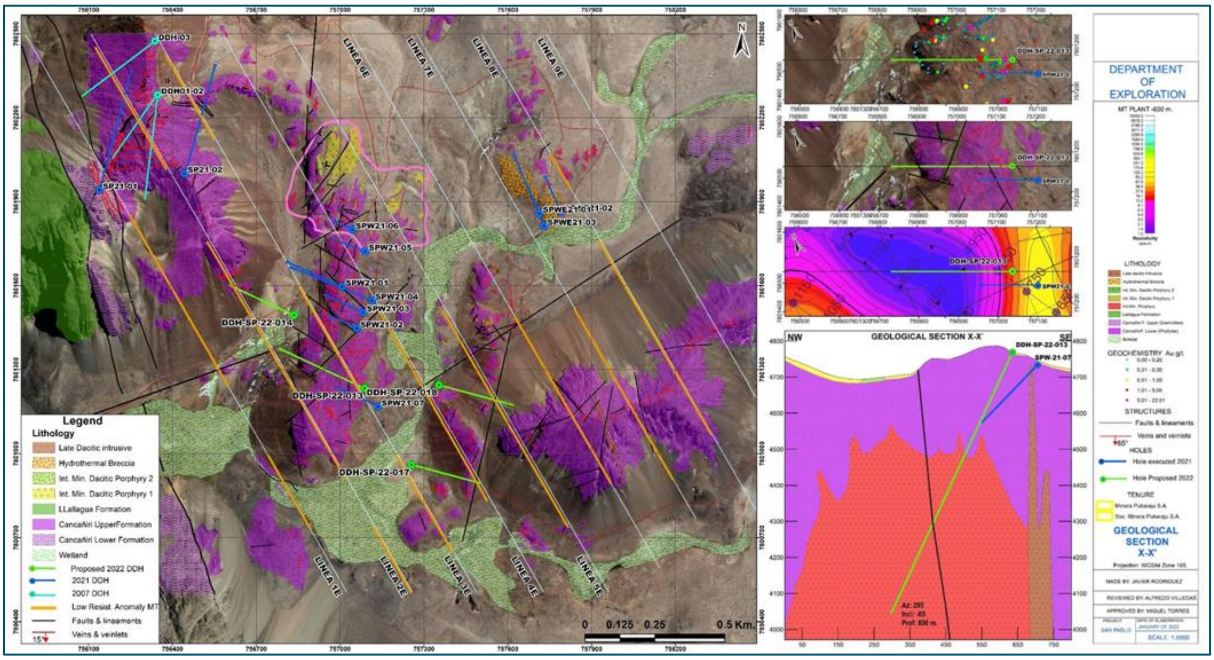
Ticker: APM CN	**Net cash:** US$87m	**Project**: San Bartolome
Market cap: C$286m	**Price:** C$1.82/sh	**Country:** Bolivia
RECOMMENDATION (unc): BUY	*TARGET (unc): C$2.20/sh*	*RISK RATING: HIGH*

At any given time, a small number of silver companies trade a big premium to NAV, driven by silver's torque to precious metals sentiment and a relative scarcity of actionable silver primary producers. Unfortunately, the pattern is for operational set-backs to cause such premium names to de-rate with recent examples being Fresnillo, Fortuna and Gatos. In that context we think Andean's steady cash flow (24% 2021E FCF yield on EV netting out US$87m of cash and eq), relatively simple mining and processing, and 13-year track record of production at San Bartolome make for an excellent risk-reward opportunity relative to peers. In the upcoming FDF resource / scoping study, we see potential to extend mine life by another 5 years and add meaningful tin production. Tin is in significant supply deficit and prices +10% YTD vs the S&P 500 -6% YTD. Finally, the exploration announced today at San Pablo and Rio Blanco is in the stock for free. Meanwhile, Eloro (C$220m mcap) and New Pacific (~C$530m mcap) show the market is willing to pay a significant premium for successful Bolivian exploration and while early days, it is a free option with potentially large porphyry upside. ***For now, we maintain our base case estimates and reiterate our BUY rating and C$2.20/sh price target based on 1.3x NAV$_{5\%\text{-}24/oz}$.***

15,000m exploration program at San Pablo targeting porphyry Au mineralization

Andean announced commencement of a 15,000 phase two drilling program at the San Pablo project to follow on 2021's SCIP and MT surveys completed in December. An initial four-holes for 3,100m will test four low-resistivity, high-chargeability (interpreted as potential porphyry sulphides) targets with the next 11,900m planned to incorporate result of the first 3,100m. Mineralization at San Pablo is hosted in sediments over a 2.5-1.5km area. Mineralization is related to sulphides in sheeted veins and veinlets, wider veins and sulphide-cemented breccias with pervasive silica-sericite alteration. Exploration at the Rio Blanco project is targeted for commencement in 2H22.

Figure 1. Map of San Pablo showing anomalies, survey lines and planned 2022 drill holes; (B) Plans and section of planned DDH-SP-22-013 showing gold geochem, outcrop, resistivity anomaly and interpreted geological cross section



Why we like Andean

1. >20% FCF yield is anomalously high relative to peers
2. Proven operating history at San Bartolome de-risks cash flow forecasts
3. Strong management team and balance sheet with capacity to build a multi-asset producer
4. Able to benefit from size / trading liquidity re-rate

Catalysts

- Imminent: Updated MRE on San Bartolome Fines (FDF)
- 1Q22: Scoping study on San Bartolome Expansion to process FDF
- Ongoing: Exploration and M&A Review

Research

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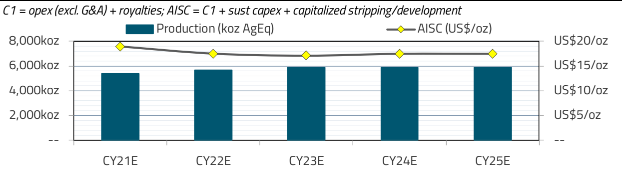
Ticker:	APM CN	**Price / mkt cap:**	C$1.82/sh, C$286m	**Market P/NAV:**	1.12x	**Assets:**	San Bartolome
J Chan / B Gaspar / E Magdzinski		**Rec / PT:**	BUY / C$2.20	**$1xNAV_{2Q20}$ FD:**	C$1.62/sh	**Country:**	Bolivia

Group-level SOTP valuation	3Q21E	**1Q21**			
		US$m	**O/ship**	**NAVx**	**C$/sh**
San Bartolome NPV 1Q21		113	100%	1.0x	0.91
Central SG&A & fin costs 1Q21		(24)	-	1.0x	(0.19)
Exploration		25		1.0x	0.20
Cash and restr. cash 3Q21E		87	-	1.0x	0.70
Debt 3Q21E		0	-	1.0x	0.00
ITM options		1	-	1.0x	0.01
1xNAV5% US$24/oz		**201**			**1.62**
Target multiples		**Multiple**			**C$/sh**
Target P/NAV Multiple		**1.30x**			**2.20**
Target price					**2.20**
Sensitivity to silver price and discount / NAV multiple					
1xNAV San Bartolome (US$m)	$20oz	$24oz	Spot: $22.9oz	$30oz	$35oz
7% discount	67	110	98	174	228
5% discount	68	**113**	100	180	236
3% discount	69	116	103	186	244
Valuation (C$/sh)	$20oz	$24oz	Spot: $22.9oz	$30oz	$35oz
1.00xNAV	1.26	1.62	1.52	2.16	2.61
1.30xNAV	1.64	**2.11**	1.98	2.81	3.40
1.50xNAV	1.90	2.44	2.28	3.25	3.92
2025E net cash (US$m)	$20oz	$24oz	Spot: $22.9oz	$30oz	$35oz
-10% change in opex	142	188	175	257	314
0% change in opex	122	**167**	155	234	291
10% change in opex	102	146	134	212	267
Valuation over time	**1Q21E**	**1Q22E**	**1Q23E**	**1Q24E**	**1Q25E**
Mines NPV (US$m)	113	100	69	47	25
Cntrl G&A & fin costs (US$m)	(35)	(22)	(24)	(22)	(21)
Net cash at 1Q (US$m)	87	103	126	149	167
Other Assets + Options	26	26	26	26	26
1xNAV (US$m)	190	206	198	199	197
P/NAV (x):	1.19x	1.10x	1.14x	1.14x	1.15x
1xNAV share px FD (C$/sh)	1.53	1.66	1.59	1.60	1.59
ROI to equity holder (% pa)	*-16%*	*-5%*	*-4%*	*-3%*	*-3%*
1.5xNAV share px FD (C$/sh)	2.30	2.49	2.39	2.40	2.38
ROI to equity holder (% pa)	*26%*	*17%*	*9%*	*7%*	*6%*
Resource / Reserve	**Mt**	**Moz Ag**	**Moz Au**	**EV/oz Ag**	**EV/oz AgEq**
Measured, ind. & inf. - Andean	4.92	23.1		6.0	6.0
SCPe Mine inventory	8.36	33.1		4.2	4.2
Production (100%)	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
San Bartolome (000oz Ag)	5,365	5,678	5,874	5,874	5,874
San Bartolome (000oz Au)	5.9	4.0	-	-	-
San Bartolome (000oz AgEq)	5,791	5,984	5,874	5,874	5,874
San Bartolome cash cost (US$/oz AgEq)	15.37	13.53	13.16	13.51	13.51
San Bartolome AISC (US$/oz AgEq)	18.52	16.73	16.26	16.56	16.56
Group (000oz Ag)	5,365	5,678	5,874	5,874	5,874
Group (000oz AgEq)	5,791	5,984	5,874	5,874	5,874
Group cash cost (US$/oz)	17.55	15.92	15.54	15.88	15.88
Group AISC (US$/oz)	18.91	17.48	17.08	17.46	17.46

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



Share data					
Basic shares (m): 157.3		FD + options (m):	158.0	FD + FF	158.0
Commodity price	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
Silver price (US$/oz)	23.7	24.0	24.0	24.0	24.0
Ratio analysis	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
FD shares out (m)	158.0	158.0	158.0	158.2	158.2
EPS (US$/sh)	0.014	0.110	0.121	0.108	0.108
CFPS before w/c (US$/sh)	0.18	0.17	0.18	0.17	0.17
FCFPS pre growth spend (US$/sh)	0.16	0.15	0.16	0.14	0.14
FCF/sh (US$/sh)	0.15	0.13	0.15	0.14	0.11
FCF yield - pre growth spend (%)	11.2%	10.4%	11.5%	10.4%	10.4%
FCF yield (%)	10.3%	9.5%	10.7%	10.5%	8.3%
EBITDA margin (%)	17.7%	27.4%	29.0%	27.4%	27.4%
FCF margin (%)	16.3%	15.2%	16.6%	16.7%	13.3%
ROA (%)	1.6%	11.4%	11.1%	9.0%	8.2%
ROE (%)	2.1%	14.8%	13.9%	11.0%	9.9%
ROCE (%)	13.1%	20.5%	19.4%	15.8%	14.4%
PER (x)	104.3x	12.7x	11.3x	12.7x	12.7x
P/CF (x)	7.7x	8.2x	7.5x	8.2x	8.2x
EV/EBITDA (x)	5.6x	3.1x	2.2x	1.8x	1.3x
Income statement	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
Revenue (US$m)	143	139	140	136	136
COGS (US$m)	(102)	(95)	(94)	(93)	(93)
Gross profit (US$m)	**41**	**43**	**46**	**43**	**43**
Expenses (US$m)	-	(19)	(23)	(19)	(25)
Impairment & other (US$m)	-	-	-	-	-
Net finance costs (US$m)	(0.4)	-	-	-	-
Tax (US$m)	(13.4)	(11.0)	(11.7)	(10.7)	(10.7)
Minority interest (US$m)	-	-	-	-	-
Net income attr. (US$m)	**27.2**	**13.0**	**11.5**	**13.3**	**6.8**
EBITDA	*2.2*	*17.4*	*19.1*	*17.0*	*17.0*
Cash flow	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
Profit/(loss) after tax (US$m)	2	17	19	17	17
Add non-cash items (US$m)	27	10	10	9	9
Less wkg cap / other (US$m)	(1)	-	(2)	0	0
Cash flow ops (US$m)	**28**	**27**	**27**	**27**	**26**
PP&E (US$m)	(4)	(4)	(4)	(4)	(4)
Other (US$m)	(1)	-	-	-	(5)
Cash flow inv. (US$m)	**(5)**	**(6)**	**(4)**	**(4)**	**(8)**
Debt draw (repayment) (US$m)	(0.2)	-	-	-	-
Equity issuance (US$m)	19.6	-	0.7	-	-
Other (US$m)	-	-	-	-	-
Cash flow fin. (US$m)	**19.4**	**-**	**0.7**	**-**	**-**
Net change post forex (US$m)	43	21	24	23	18
Balance sheet	**CY21E**	**CY22E**	**CY23E**	**CY24E**	**CY25E**
Cash (US$m)	82	103	126	149	167
Accounts receivable (US$m)	3	3	4	3	3
Inventories (US$m)	8	8	9	9	9
PPE & exploration (US$m)	21	17	12	6	5
Other (US$m)	22	22	22	22	22
Total assets (US$m)	**135**	**153**	**173**	**189**	**207**
Debt (US$m)	-	-	-	-	-
Other liabilities (US$m)	35	35	35	35	35
Shareholders equity (US$m)	24	24	25	25	25
Retained earnings (US$m)	76	93	112	129	146
Minority int. & other (US$m)	-	-	-	-	-
Liabilities+equity (US$m)	**135**	**153**	**173**	**189**	**207**

Source: SCP estimates

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UNDER REVIEW:	0
TENDER:	1
NOT RATED:	0
TOTAL	53

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