

Prime Drink Group (PRME.CN)

Case Study by Thomas Giroux

February 4th, 2023

Recommendation: (S) PRME.CN

Price Target of 0.6CAD

Estimated Total Returns: $\approx 62.43\%$

CAD		Multiples		Trading Stats	
Share Price	0.17 CAD	Current Ratio	0.15	Short Interest	0.06%
Shares Out.	137.6M	EBITDA	(1.60)	52 Week High	0.215\$
Market Cap	23.3M	EV/EBITDA	(12.40)	52 Week Low	0.004\$
Net Debt	2.7	ROE %	(0.10)	Avg Vol (3m)	134.49k
EV	20.6M	ROA %	(0.06)	1y Change	0.10\$/142%

Company Overview: Prime Energy Group engages in the acquisition and management of water reserves in the province of Québec, Canada. Moreover, the company also aims to market the spring water market in Canada as much as possible to eventually profit from a privatization of water in the country and in North America.

Thesis:

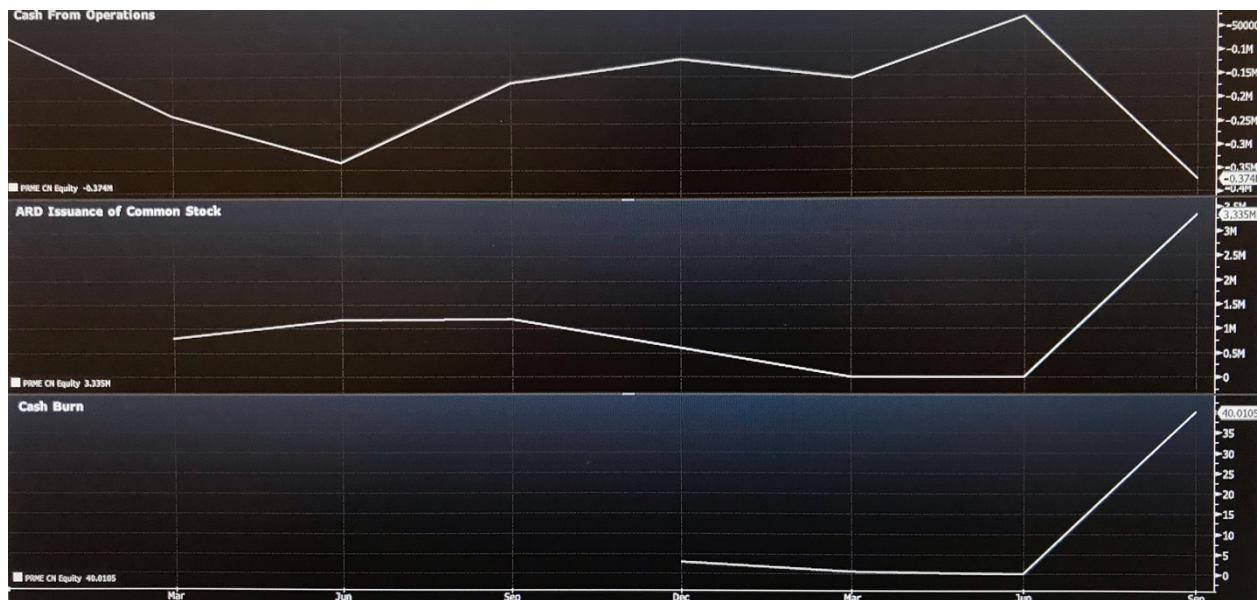
The current market capitalization of PRME is solely based on its water rights' worth which is extremely problematic when accounting for the inflated value of land and real estate in the province of Québec in the last two years. The underlying "water market" is also subject to irrational pricing and hopefulness of asinine presumptions. Henceforth, the rise in interest rates in North America will also have an undeniable impact on the real estate market which could result in colossal losses for the company. There are also a lot of intricacies regarding potential market manipulation tactics used by current holder, board member and social media influencer Olivier Primeau. Indeed, it looks as though Mr. Primeau has resorted multiple times to his mass following on Instagram and Twitter to artificially increase the value of PRME by recommending his followers to buy the underlying equity.

Prominent Issue:

PRME has yet to have generated any revenues since they went public. It still is unclear whether the new management team will try to use its new water rights for their own good (Mr. Primeau has an alcoholic beverage company which obviously requires water to make the underlying products) or to export for a profit incentive.

At March 31, 2022, Dominion Water Reserves Corp. has not yet achieved profitable operations, has significant losses from operations over the years and an accumulated deficit of \$8,367,143 since inception and expects to incur further losses in the development of its business. Additionally, the Company incurred a net loss and comprehensive loss of \$162,003 during the period.¹

As of the latest balance sheet data in 2021, the company roughly has 200k in cash, with total liabilities equalling 113k entirely comprised of both accounts payable (85,648) and lease liabilities (27,358). However, PRME is currently burning 700k to keep the enterprise afloat. The management team is also diluting the share float of PRME by raising 3.3M through shares issuance in the last 12 months.

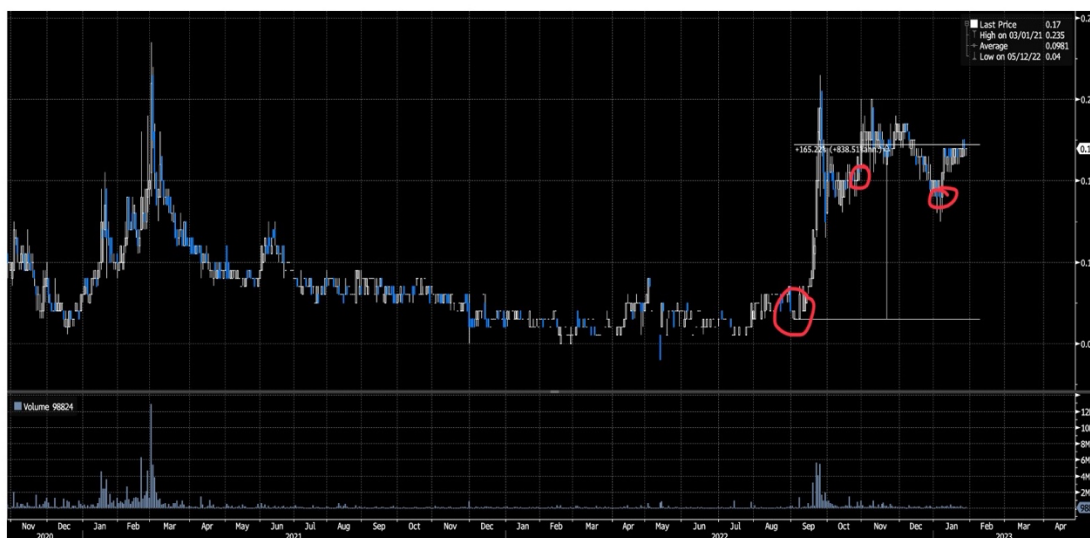


¹ First paragraph under “Going concern”, p.5. Consolidated Financial Statements

As previously mentioned, Mr. Primeau's social media advertisement of PRME (previously Dominion Water Reserves) has sent the stock flying without any drawbacks to its intrinsic value range. The red circles on the chart represent said online adverts. Consequently, it's clear there was great demand afterwards.

PRME CN Equity (Prime Drink Group Corp)
PRME CN Equity (Prime Drink Group Corp)

Bloomberg



The BLOOMBERG PROFESSIONAL service, BLOOMBERG Data and BLOOMBERG Order Management Systems (the "Services") are owned and distributed locally by Bloomberg Finance L.P. ("BFLP") and its subsidiaries in all jurisdictions other than Argentina, Bermuda, China, India, Japan and Korea (the "BLP Countries"). BFLP is a wholly-owned subsidiary of Bloomberg L.P. ("BLP"). BLP provides BFLP with all global marketing and operational support and service for the Services and distributes the Services either directly or through a non-BFLP subsidiary in the BLP Countries. The Services include electronic trading and order-routing services, which are available only to sophisticated institutional investors and only where necessary legal clearances have been obtained. BFLP, BLP and their affiliates do not provide investment advice or guarantee the accuracy of prices or information in the Services. Nothing on the Services shall constitute an offering of financial instruments by BFLP, BLP or their affiliates. BLOOMBERG, BLOOMBERG PROFESSIONAL, BLOOMBERG MARKET, BLOOMBERG NEWS, BLOOMBERG ANYWHERE, BLOOMBERG TRADEBOOK, BLOOMBERG BONDTRADER, BLOOMBERG TELEVISION, BLOOMBERG RADIO, BLOOMBERG PRESS and BLOOMBERG.COM are trademarks and service marks of BFLP, a Delaware limited partnership, or its subsidiaries.

Bloomberg ©Charts

1 - 1

Per my personal and quite simple analysis, once the total cash amount of the company is deducted from the market cap and the debt added back to the latter, the Enterprise Value (EV) roughly stands at 20M in CAD. The total value of the company's water rights + land property is also roughly worth around 6M in CAD (the water rights and lands are the only tangible assets reflected in the share price). Once we deduct that 6M of assets to the 20M we're left with the falsely inflated value of the company, or 14M. In other terms, the intrinsic value per share is 0.06CAD and the margin of profit for a short entry @ 0.17CAD, is 0.11CAD ($\approx 62\%$).

Land & Water Rights		
<i>Numbers in CAD</i>	FY20'	FY21'
Land Value at Start of Year	185,600	229,100
Additions During the Year	43,500	139,600
Total Land Value	229,100	368,700
Building Value at Start of Year	10,300	10,300
Additions During the Year	0	2,700
Total Building Value	10,300	13,000
Building + Land Value	239,400	381,700
Water Rights Value at Start of Year	4,517,400	4,910,029
Additions During the Year	392,629	747,833
Total Value at Year End	4,910,029	5,657,862

<i>numbers in CAD</i>	Estimated Value of Stock
Price	0.17
Shares Out.	137,592,396
Market Cap	23,390,707.32
Minus Cash & Equivalents	2,728,901
Plus Total Debt	9,620
Enterprise Value	20,671,426.32
Land + Water Rights Value	
Land and Building Value	382,206
Water Rights Value	5,657,862
Right-of-Use of Assets	29,176
Total Non-Current Assets	6,069,244
EV - Total Non-Current Assets	14,602,182.32
Inflated EV per share	0.11
Margin of Profit for short	0.11
Intrinsic Value of Water Rights per share	0.06
% Upside	62.43

<i>In Millions of CAD ex per share</i>	2018	2019	2020	2021	TTM
Income Statement					
Revenue	0.00	0.00	0.00	0.00	0.00
Interest Expense	0.00	0.00	3.20	0.00	0.00
Operating Expenses	0.10	0.50	2.20	1.60	1.30
Net Income	(0.10)	(0.50)	(5.40)	(1.60)	(1.30)
Balance Sheet					
Cash and Cash Equivalents	0.00	0.10	0.10	0.20	2.70
Other Short-Term assets	0.10	0.10	0.10	0.10	
Total Current Assets	0.10	0.20	0.20	0.30	2.70
Property, Plant and Equip.	0.00	0.20	0.20	0.40	
Misc. LT assets (Water Rights)	0.00	4.50	4.90	5.70	
Total Noncurrent Assets	0.00	4.70	5.10	6.10	0.00
Total Assets	0.10	4.90	5.30	6.40	2.70
Payables & Accruals	0.20	0.10	0.10	0.10	
ST Debt	0.00	0.50	0.00	0.00	
Other Short-term Liabilities	0.00	0.00	0.20	0.00	
Total Current Liabilities	0.20	0.60	0.30	0.10	0.00
Total Noncurrent Liabilities	0.00	0.00	0.00	0.00	0.00
Total Liabilities	0.20	0.60	0.30	0.10	0.00
Cash Flow					
Net Income	(0.10)	(0.50)	(5.40)	(1.60)	(1.30)
Non-Cash Items	0.00	0.00	4.40	0.70	0.60
Chg in Non-Cash Work Cap	0.00	(0.10)	(0.10)	0.00	0.00
Cash from Operating Activities	(0.10)	(0.60)	(1.10)	(0.90)	(0.70)
Cash from Investing Activities					
Acq of Fixed Prod Assets	0.00	0.00	0.00	0.00	(0.10)
(Water Rights Purchase)	0.00	(0.20)	0.60	(0.30)	(0.10)
Cash from Investing Activities	0.00	(0.20)	0.60	(0.30)	(0.20)
Cash from Financing Activities					
Cash from (Repayment) Debt	0.00	0.50	0.00	0.00	0.00
Cash (Repurchase) of Equity	0.10	0.30	0.60	1.20	3.30
Cash from Financing Activities	0.10	0.80	0.60	1.20	3.30

Net Change in Cash	0.00	0.10	0.00	0.10	2.30
Reference Items					
EBITDA	(0.10)	(0.50)	(2.20)	(1.60)	
FCF	(0.10)	(0.60)	(1.20)	(0.80)	(0.80)

[PRME's most recent statement](#)