

# GRANT'S

INTEREST RATE OBSERVER®

Vol. 31, No. 5e

Two Wall Street, New York, New York 10005 • www.grantspub.com

MARCH 8, 2013

## Metals redux

Shares of Pretium Resources (PVG on the Toronto and New York exchanges) and Northern Dynasty Minerals (NKD on the Toronto and NAK on the New York MKT) have lost over 37% and 26%, respectively, of their value since the Jan. 25 issue of *Grant's* in which they featured as long ideas. Pretium's post-publication \$21 million equity financing probably did the PVG price no good, though it was not an unwieldy sum compared to the company's then \$1.1 billion market cap (now reduced to \$729 million). In the case of neither company has the fundamental narrative changed, nor has Mr. Market changed his mind. The old gent wants nothing to do with any gold project requiring any future capital commitments. He hates gold stocks generally, but especially the exploration companies, which, by definition, pay no dividend and produce no gold. Since Jan. 25, the Global X Gold Explorers ETF (GLDX on the NYSE ARCA) has fallen by 26%.

To be bearish on deep, out-of-the-money gold options, which is what the exploration companies represent, is to be bullish on 21<sup>st</sup>-century monetary arrangements. *Grant's* remains bearish on the Ph.D. standard and bullish on Pretium and Northern Dynasty.

And we remain bullish, too, on Horsehead Holding Corp. (ZINC on the Nasdaq), a leading American producer of zinc and zinc oxide and a top recycler of electric arc furnace dust and of nickel-bearing wastes (*Grant's*, Dec. 16, 2011). No, it would not be bullish for Horsehead if China went the way of all credit debauched economies, but we are willing to subordinate China in this case to a bigger, more immediate consideration. This is the looming completion of Horsehead's new zinc plant in Rutherford County, N.C.

"Management anticipates that the facility, once operational later this year, will generate annual incremental adjusted EBITDA of approximately \$90 million to \$110 million," relates colleague David Peligal. "Considering that Horsehead delivered \$40.7 million of adjusted EBITDA in 2012, down from \$63.3 million in 2011, you realize the importance of this project to the company's fortunes. To use an overworked word, it will be transformational.

"Let's assume, not unreasonably," Peligal goes on, "that Horsehead can generate \$150 million of EBITDA. Jotting on the back of the envelope, subtract \$12 million for maintenance cap-ex, \$25 million for interest expense

and \$35 million for taxes. The balance is roughly \$78 million, and the company has less than 50 million shares outstanding. It's not hard to see them generating \$1.56 a share of free cash flow in the not-so-distant future. Remember, the stock trades at \$10.65 today. If there's inflation, that's just a bonus. If China blows up, that would be a negative.

"At year-end," Peligal closes, "the balance sheet showed \$244.1 million cash and equivalents against \$263.3 million of long-term debt. In July, management completed a private placement of \$175 million of five-year notes at a yield of 10.5%. Why such a high rate? Robert Scherich, the Horsehead CFO, told me in November that his company is too small to secure one of those tiny little interest rates. 'Size matters,' he said. 'We're investing in a project that approximates our current market cap. As a relatively small company, when you step out and get ratings for the first time, about 25% of the rating is based on the size of the company [Moody's rates it B2]. That's why, strategically, we have to grow over time.'"

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