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Calling Mitt Romney

By the time you read this note on Pan American Silver (PAAS), you will know more than we do; the company is slated to report first-quarter results on Wednesday (we go to press on Tuesday).

Plainly, the market isn't expecting much. Quoted at \$15 a share, down from \$24 when we had such nice things to say about the company just a few months back (*Grant's*, Feb. 10), the shares are as cheap as they are unloved.

Just how cheap? Pan American owns three million proven and probable ounces of gold and 354 million proven and probable ounces of silver. There is probably \$600 million of net cash on the balance sheet. Subtracting that cash from the \$2.45 billion market cap gives you an enterprise value of \$1.85 billion. Value the gold at \$616.67 an ounce, and that's the enterprise value. The rest of the company comes for free.

Colleague David Peligal, putting himself in the shoes of a certain nationally prominent LBO promoter, has penciled out the terms of a hypothetical Pan American management buyout.

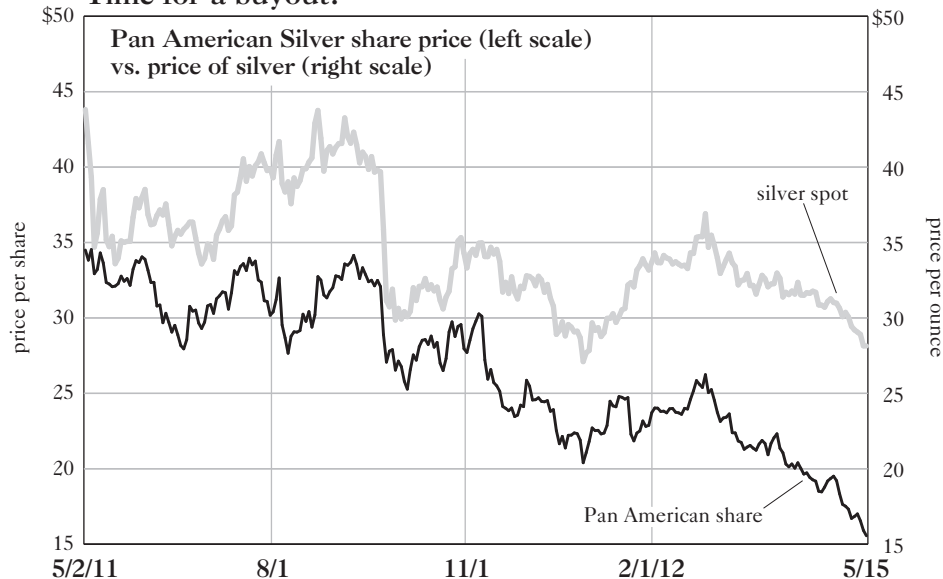
"Say that management pays a 33% premium to the current price," he begins. "The LBO market cap comes to \$3.26 billion. Subtract that \$600 million in estimated net cash to find the enterprise value—\$2.66 bil-

lion. Assume they finance 25% with equity, or \$665 million. That leaves \$2 billion to borrow. At 5½%, the annual interest tab would come to \$110 million. It looks manageable. Earnings before interest, taxes, depreciation and amortization this year are forecast in the neighborhood of \$500 million. Subtract projected cap-ex of \$125 million; \$375 million could easily pay the creditors.

"An interest coverage ratio of 3.41 times seems fat enough," Peligal goes on, "though, of course, there

are risks. Gold and silver prices can go down. Costs can go up. If management proceeds with the construction of the Navidad silver project in Argentina, someone will have to raise \$1 billion. Argentina, politically speaking, is never to be confused with the state of Nevada. Still, despite all the risks and moving parts, a management buyout at these valuations is by no means inconceivable. PAAS is a cheap stock."

Time for a buyout?



source: The Bloomberg

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