INSIDER

Top 6 Trades

CAPITALIST EXPLOITS

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The following 6 trade ideas are taken from Capitalist Exploits INSIDER program - a subscription service dedicated to identifying, diligencing, and providing execution guidance on the best opportunities out there.

Enjoy!

Chris MacIntosh
Founder & Editor In Chief, Capitalist Exploits Independent Investment Research
Founder & Managing Partner, Asymmetric Opportunities Fund

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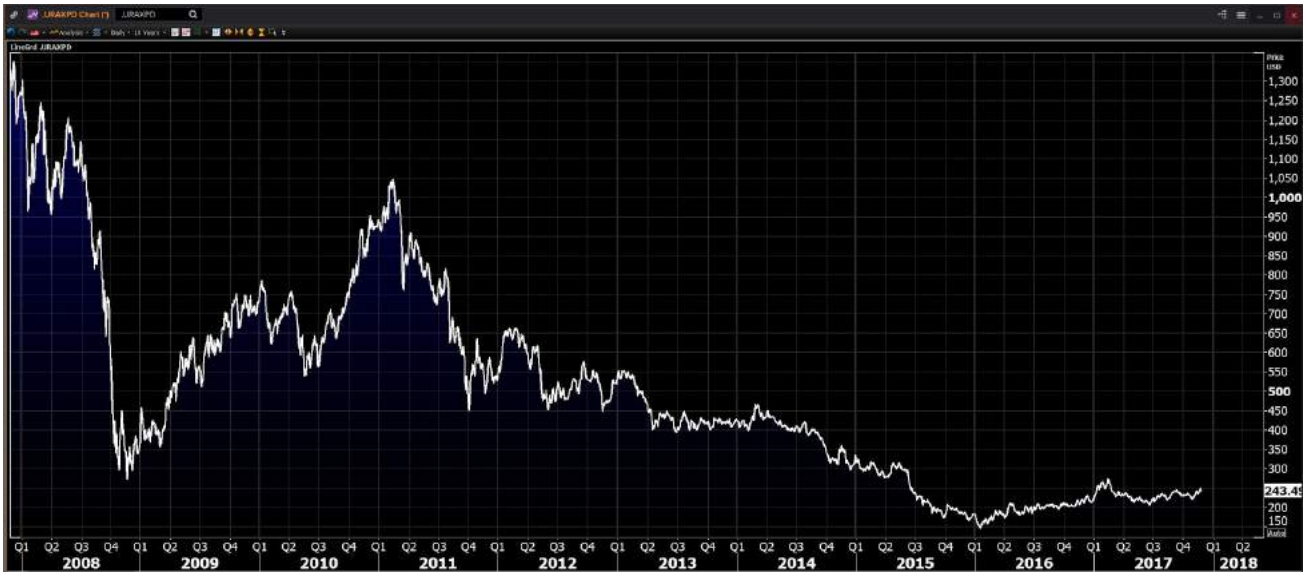
1. URANIUM

In 2011, the uranium market was hit with the perfect storm: Just as the commodity "super cycle" was topping out… retail investors were unknowingly (some things never change) lining up to be slaughtered, and global metals and energy prices were coming under pressure, the Fukushima nuclear disaster hit. The accident put the fear of the almighty into energy agencies, public opinion turned against nuclear energy faster than an ill treated starved pit-bull, and many nuclear power plants were taken offline. The result was that over the next 5 years, uranium prices, and uranium stocks, were mercilessly crushed.

CBOE WORLD URANIUM EQUITY INDEX



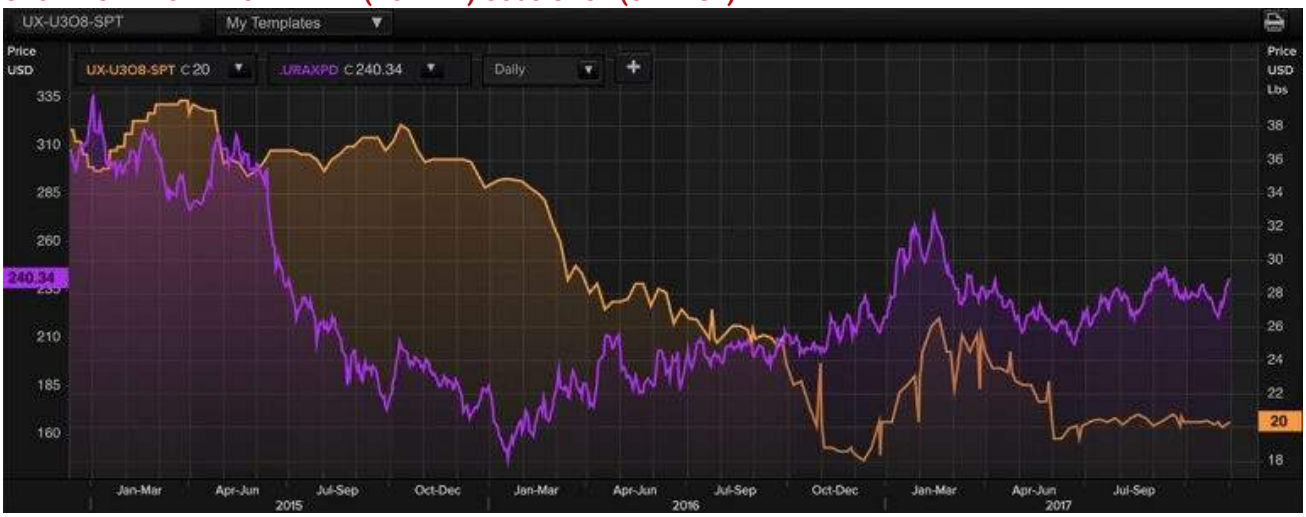
However, as we know from experience and history, whenever there is a crisis humans overreact. Not sometimes, not even often, but every time!

Now recent news has reinforced our belief that not only is the bottom in but the supply/demand characteristics have just moved significantly in our favour. Brace yourself, the Uranium market is about to skyrocket.

On November 8, Cameco Corp. shut production at its McArthur River mine in Saskatchewan. McArthur accounts for some 11% of world uranium production. Cameco's shut down of the world's biggest uranium mine sends a clear message to the market – nobody, but nobody, can mine uranium profitably at current prices.

The uranium spot price has reached its ultimate low, and the next bull market has already begun. It began back late last year when we issued our original alert. Now we're just more sure of it.

CBOE WORLD URANIUM INDEX (PURPLE) U308 SPOT (ORANGE)



Note how uranium equities bottomed in January 2016, a full 11 months before U308 spot did. Also, U308 retraced most of its gains and yet uranium stocks held onto most of their gains. We've seen this form of bottoming occur many times before. This divergence is a classic long-term bullish sign and we noted this sending members an alert immediately at the time.

Cold hard facts

The fact is, no one can mine uranium profitably at current prices. Post-Fukushima, a long list of production cuts, cancellations and deferments have been announced, with the Cameco announcement being just the latest in this sorry saga. At current levels there will be no new capacity brought online..zero, nada, zilch. Rather, capacity will be reduced. Capacity shut downs will likely get even more aggressive over the coming months. It's a survival tactic for uranium companies.

But while the uranium industry appears to be in liquidation, a peek behind the curtain points to a different story emerging: More nuclear reactors are slowly coming online, while uranium reactors still produce 11% of the world's electricity production. Furthermore this appears likely to increase if you look at the nuclear power plants about to come on stream in the next 5 years. Over 60 reactors in 15 different countries are currently under construction.

As countries increasingly focus on lowering CO2 emissions, while also meeting the insatiable global demand for electricity, the only real way of increasing electricity capacity in most countries is via nuclear energy. Our analysis indicates we will be in a uranium supply deficit around 2020 that will fail to meet the demands of the increase in reactors. There is no other conclusion one can reach.

The low price environment has choked off exploration activity for uranium, and we are at the point where current uranium projects in the pipeline cannot adequately meet the upcoming demand. As such, global inventories will be dramatically whittled down, likely a lot quicker than what anyone thinks possible.

At current spot rates no uranium producer can make money. We know this. But little production is sold at spot rates. The only thing that has been keeping uranium producers going is forward contracts to supply at prices well above spot.

However, a massive crunch is approaching when long-term contracts between uranium miners and utilities expire. When contracts expire, miners essentially have two choices:

1. Try and roll the contracts and get a higher price from utilities, or;
2. shut down production.

So here is what happens: Prices will have to be renegotiated at higher rates. Cameco clearly stated in their recent conference call that they will only contract at rates that are materially higher.

Fundamentally I am quite sure that we are starring smack bang at the bottom of the price for uranium at US$20.

To play the emerging uranium bull market, we're targeting stocks that have:

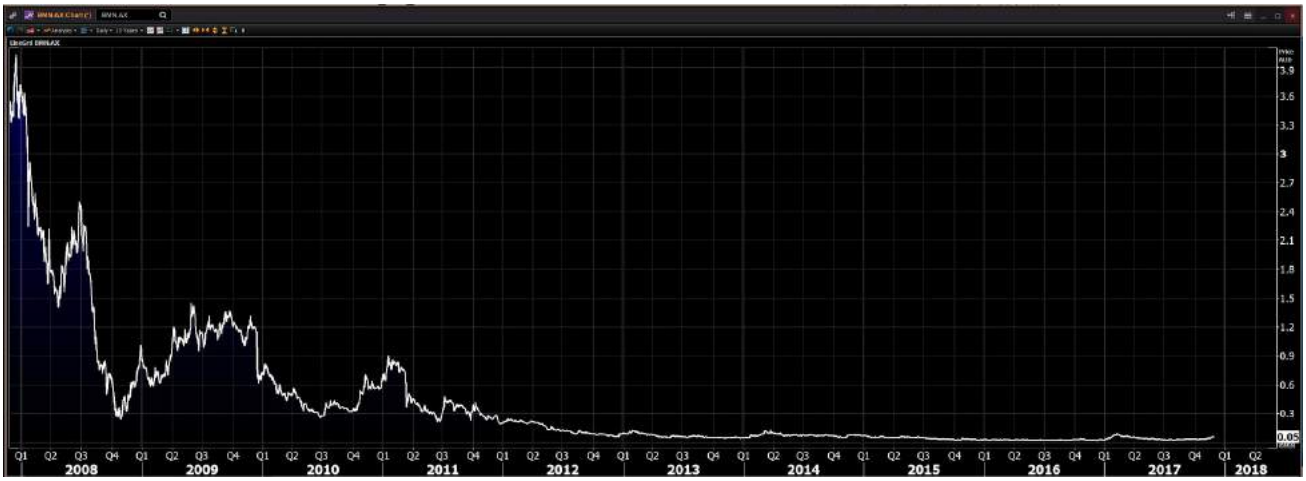
1. High quality assets
2. Significant upside to a rising commodity price
3. Are well funded and not in any need of liquidity to continue operations whilst the uranium price languishes
4. Reasonable evidence that the stock price has already formed a long-term bottom (i.e. the stock price is well above its 52-week low)

We have chosen:

GoviEx Uranium (GXU.V) - Has the 5th largest uranium deposit of listed producers, a low cost base, experienced management, a mining friendly jurisdiction and a "who's who" of shareholders and strategic partners.

Fission Uranium (FCU.TO) - Owns the shallowest high-grade uranium deposit discovered in the past 40 years. It's well capitalized with a core holding by Chinese utility CGN -- China General Nuclear Power Group

Bannerman Resources (BNM.AX) - Is developing a mine in Namibia, not far from Rio Tinto's and Paladin's mines. Bannerman is advanced in its development, well cashed up and carrying no debt. A highly underrated company in our view.



Crunch time is coming and forward contracts for uranium producers are coming to an end over the next 5 years. Once these contracts expire, buyers will have to renegotiate at significantly higher prices or uranium producers will shut down production. And then the price of uranium will skyrocket. It is as simple as that. Either which way, the price of uranium has to move materially higher.

I'm not one to talk in various shades of grey. This is black and white: Increase your weighting to uranium stocks NOW! The next bull market in uranium has begun, and while we may have to wait a few months, this one promises to be truly spectacular.

2. COBALT

Electric Vehicles are coming… and fast. Alternative energy is now competitive with fossil fuels, but most importantly, the political will behind the ascent of EVs is now overwhelming.

I believe the proliferation of electric vehicles is a good thing, but that's beside the point. The market doesn't give a flying hoot about our opinions so we need to ensure we're focused on probabilities and investing our capital accordingly.

The facts are that cobalt is a key component of batteries for EVs, and demand for batteries from the electric vehicle revolution is exploding. But cobalt supply is constrained. If present initiatives are even 30% correct, a monster cobalt shortage is on the horizon. The price of cobalt is poised to soar.

Here are the major factors impacting the Cobalt market:

- 60% of cobalt mined comes from the Democratic Republic of Congo -- one of the poorest, most corrupt and most coercive countries on the planet.
- China accounts for about 65% of world cobalt refined output. About 90% of China's cobalt feeder stock comes from the DRC.
- Cobalt supply is largely a function of copper supply. In 2016, approximately 60% of cobalt mined was as a byproduct of copper, 38% as a byproduct of nickel, and the remaining 2% from primary cobalt mines.
- There has been no increase in capacity for copper and nickel in many years. Lead times for increasing production are long. It will take many years to "switch on supply" of copper and nickel (to get the required amount of cobalt) and meet the needs of the EV "roll-out".

In a nutshell: It isn't a case of IF there is a supply shock in cobalt but rather WHEN.

By 2020, about 60% of demand for cobalt will come from lithium ion batteries. What happens if not only electric vehicles but the entire electrical revolution takes off? From cars to electric trucks and buses… and then homes with big batteries sitting on walls. This will mean a hell of a lot of cobalt, lithium, nickel, etc.

Place your bets as to what the cost of cobalt et al will be to make this fantasy a reality. What we do know is that it will be in order of magnitude greater than that supplied today.

But how do we best apply a bullish view on cobalt?

Identifying stocks that are pure cobalt plays is difficult, given that the mineral is almost always a byproduct of other metal production. We want stocks with the greatest leverage to cobalt rather than nickel or copper, (though we're not bearish on either) to get the biggest bang for our buck while mitigating risks.

We also want minimal exposure to companies that have significant operations in ~~screwed up~~ "fragile" geographic locations like the DRC. The price of cobalt could go bananas only to have a shutdown in DRC mines and we'd see our investments go down the drain.

Also we're looking for stocks showing relative strength. The market is the all seeing eye. If a stock is making new lows or generally looking weak, I assume the market is telling me something. The stocks we are choosing have shown a willingness to move higher over the last 6 months or at least trade sideways.

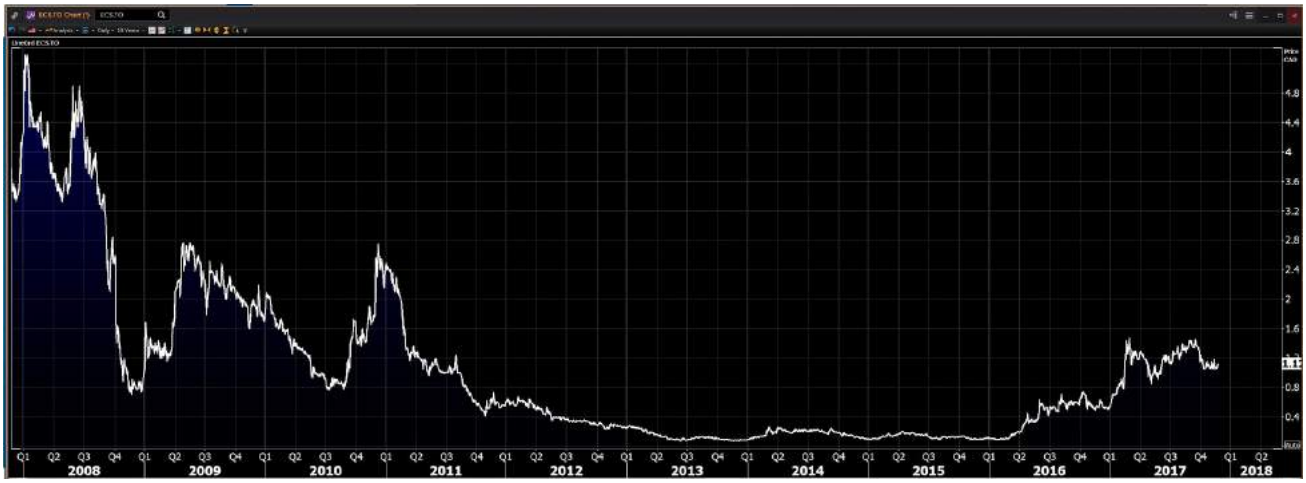
No Cross-Dressers: We want stocks that have high concentrations of cobalt in the ore bodies they are developing not just another copper/nickel company dressed up in a "glamorous blue dress".

Here then is our own personal cobalt ETF. We'll call it the Insider Cobalt ETF (ICE). These are all miners at the developmental stage, and as such individually they carry inherent risk. However, if we combine them as our own ICE ETF, then the stock specific risk will be mitigated, particularly if each of these stocks have the potential to post 5x returns within the next 5 years.

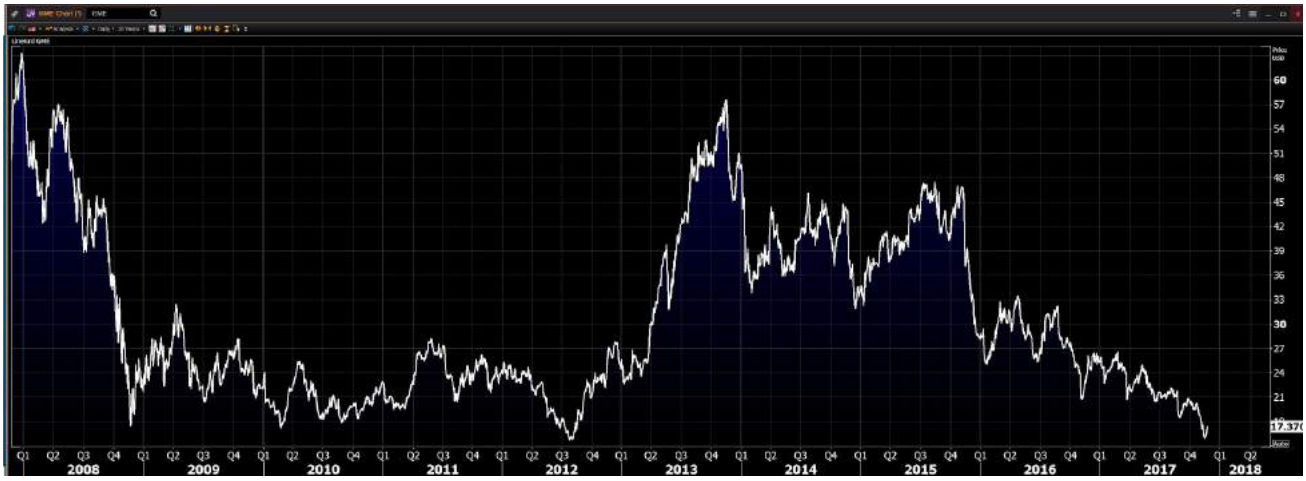
Here is our portfolio of cobalt stocks:

Ardea Resources (OTCMKTS: ARRRF) was listed earlier this year as a spinoff from Heron Resources. Reported to have the largest documented cobalt resource in Australia (Kalgoorlie Nickel Project). Drilling programs have confirmed approximately 405,000 tonnes of cobalt and 5.46mt of nickel. No indication yet as to when mining will commence. Could be a rocket ride.

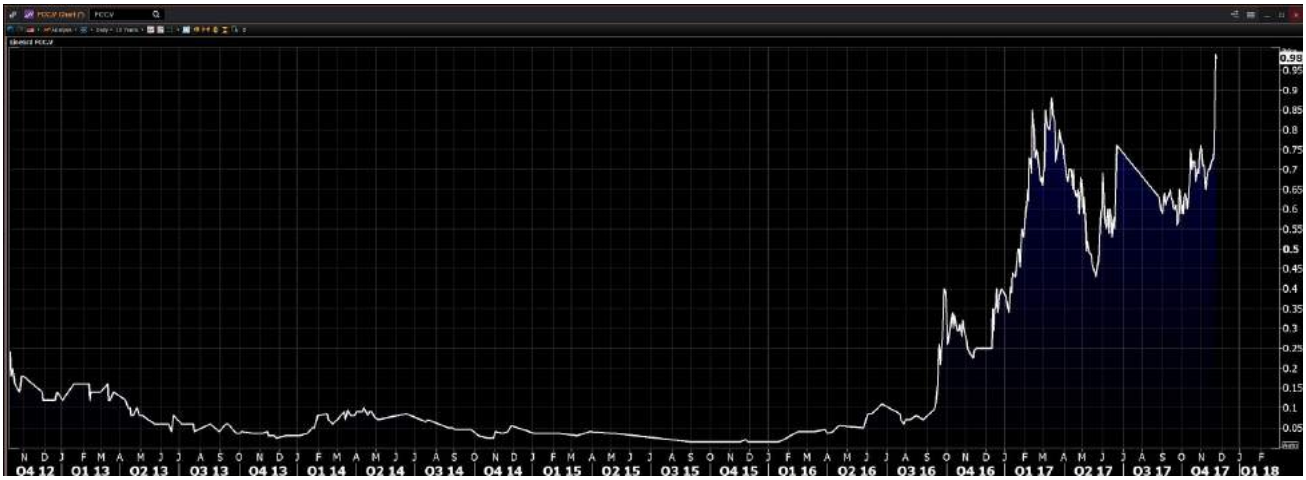
Ecobalt Solutions (OTCMKTS: ECSIF). Near production stage of Idaho Cobalt Project. Projected to produce 14,500 tonnes of cobalt, 19,500 tonnes of copper, and 39,200 oz of gold over a 12.5-year mine life. Operations to commence next year.



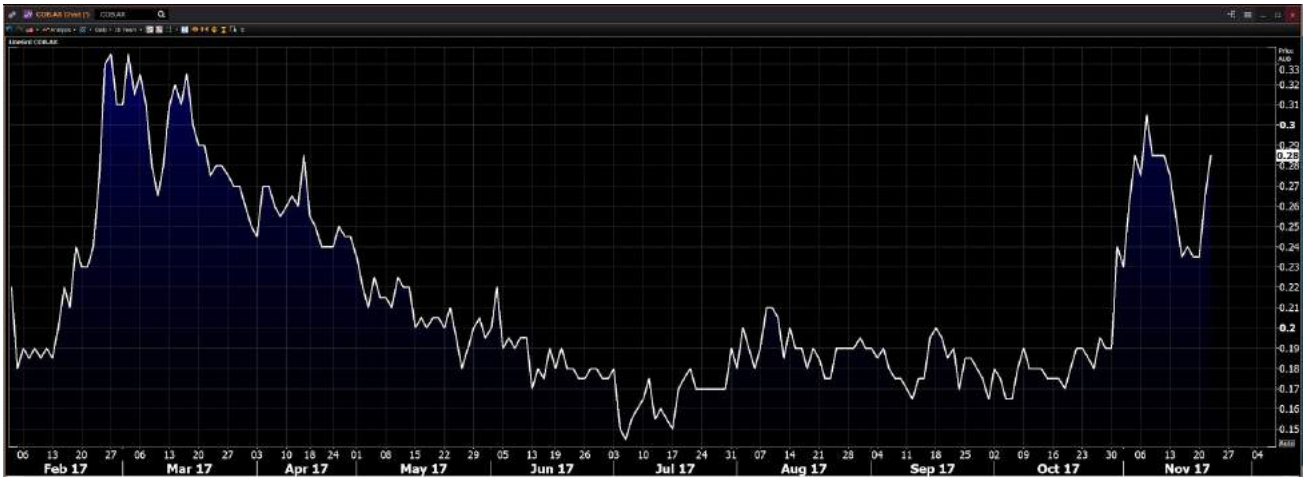
GME Resources (no OTC market listing). Projected to produce 830,000 nickel and 52,000 tonnes of cobalt. Operations in Western Australia. Sitting on top of Australia's 3rd biggest cobalt and nickel resources.



First Cobalt (OTCMKTS: FTSSF). CobaltOne and Cobaltech merged into First Cobalt, the largest Cobalt exploration/development company. Operations: Cobalt Camp, Ontario Canada. Cobalt and secondary silver deposit. No resource estimate available although initial drillings indicate high concentrations of cobalt and silver.



Cobalt Blue (no OTC market). One of only two pure play cobalt company's listed on the ASX (the other is Northern Cobalt - code N27) . Developing a cobalt ore body just outside of Broken Hill, NSW, Australia. 50,000 tonnes cobalt with no nickel, copper or gold. Mining not expected to commence until 2020 if all goes well with 2019 feasibility study.



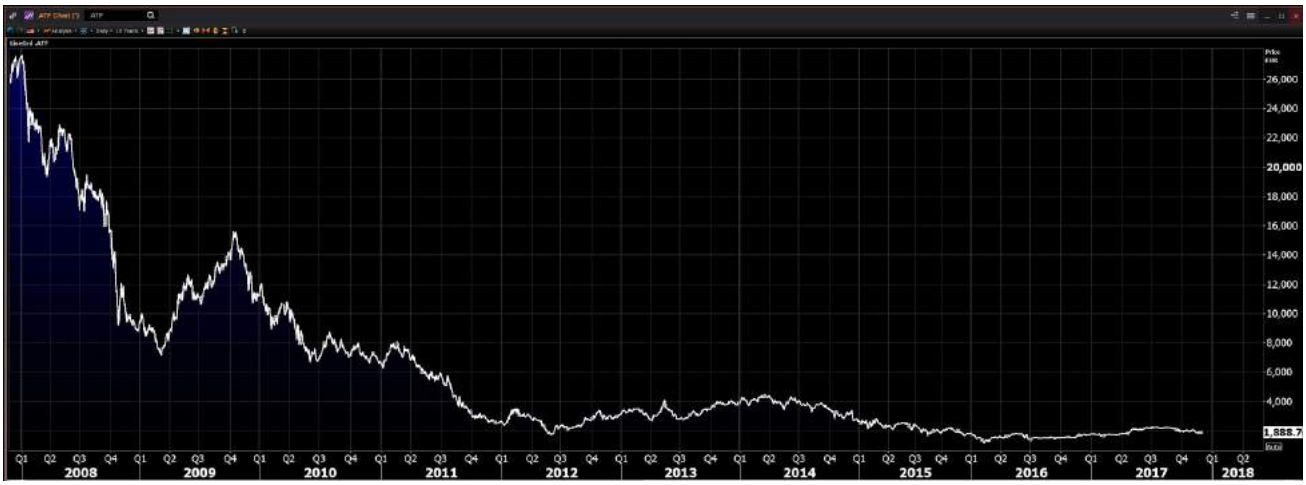
So there you have it. A tidy package of cobalt equities which have a very realistic chance of getting truly silly over the next 5 years and possibly longer.

3. GREECE

There are few markets in the world less loved than Greece. From its peak in 2008 to its low in 2016, the Athens stock market lost some 95%, taking it to lows not seen in two generations. Yet 2017 has seen Greek stocks move off their lows -- still nobody is looking at Greece, even though the market is telling us to pay attention.

But bull markets have a habit of starting when no one expects them to.

ATHENS 20 INDEX



One of the best measures we use to gauge markets is watching how they react to "bad" news. If a market refuses to go down against a barrage of negative news, then there is a reasonable certainty that a market bottom is already in or near to forming.

For context the Malaysian market fell 87%, but four years later, it was up some 550%. Russia was smashed 1998, down some 90%. But in the years following – up 44 fold. Iceland's market had a 98% meltdown during the GFC. But up 400% since then. In all these instances those investors courageous enough to buy when blood was in the proverbial streets were handsomely rewarded.

The moral of the story is that it's not wise to be bearish on a smaller emerging market when it has fallen 90% or so...especially where it's not a result of a civil war or some such catastrophe. Typically such markets have nowhere to go but up.

Though rising from rock bottom, Greek stocks remain cheap. While we don't know what the profitability of Greek stocks will be in, say 5-years, we do know that even if there is no meaningful margin expansion going forward, we're not paying very much for the assets of Greek stocks with the average P/Book ratio at about 0.65.

The Greek Government has taken equity stakes in the four "big" Greek Banks, and significant options of non-performing loans on the books of Greek banks were "offloaded" (losses realised).

Then there's the Chinese. As part of the One Belt One Road (OBOR) initiative, the Chinese have been quietly buying up assets in Greece over the last few years. Among Chinese investments: A significant stake in Greece's power grid. And a Chinese company now has controlling interest in the biggest port in Greece (Piraeus).

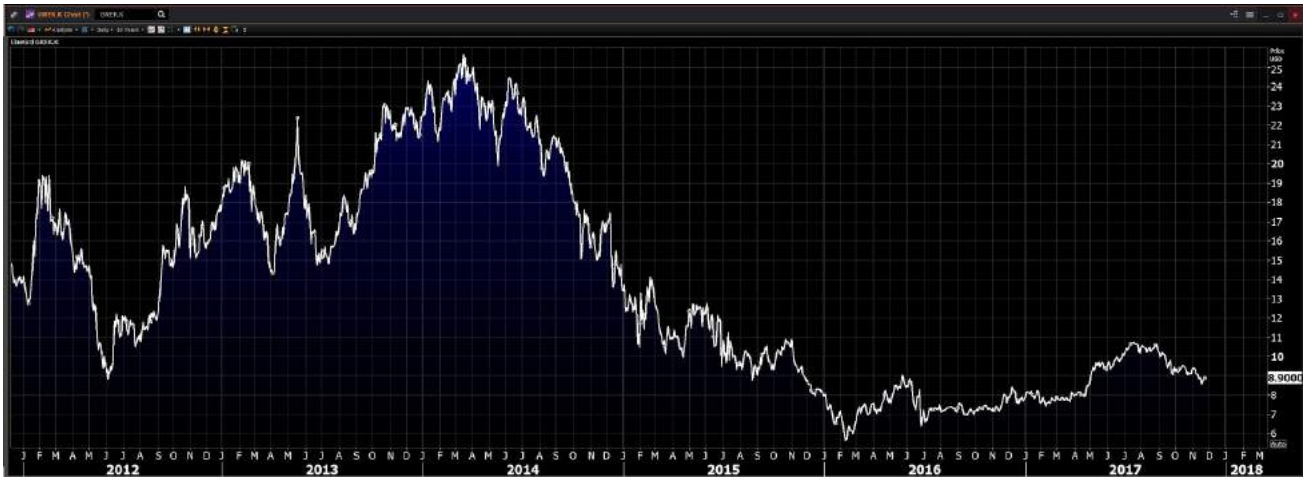
When assets get cheap, out come the bargain hunters, and when the sheep see bargain hunters at work, they too will follow and with this the narrative will follow. China's interest in Greece is beginning to attract attention. Next step we'll see fund managers moving in and then finally retail investors.

The Chinese don't tend to once-off opportunistic purchases. They are usually part of a grand plan. The Athens Airport project is one such example: there are now direct flights between Beijing and Athens. This will open the doors to Chinese tourists. Trust me, I've seen this firsthand when living in Thailand and I continue to see it every time I'm in Asia. It is a significant factor not to be underestimated.

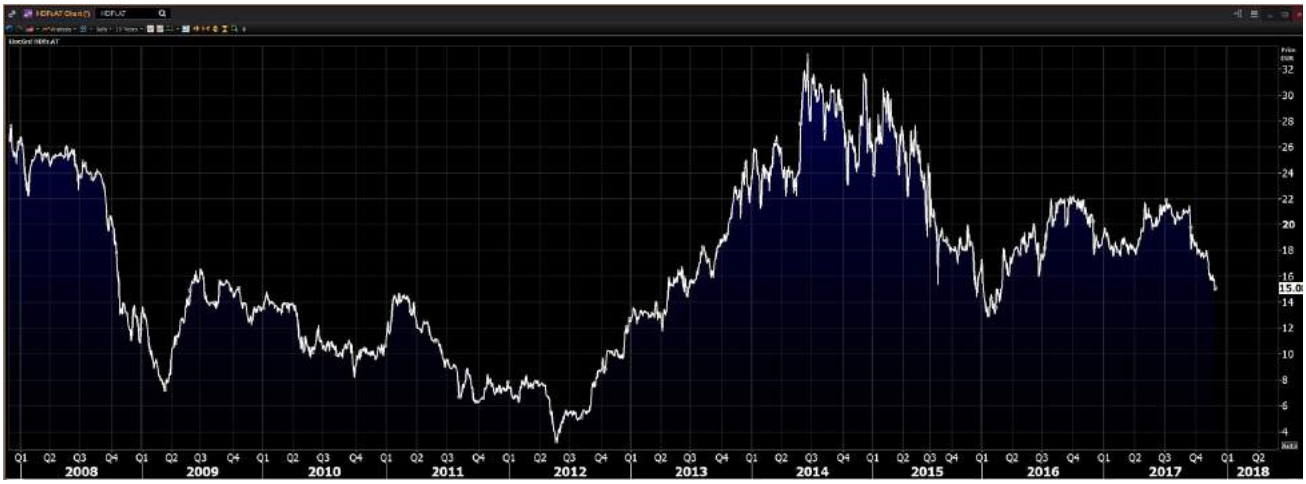
Change happens in the face of adversity. The Greek economy will rise from the ashes and it is probably already well on its way to doing so.

But how does one get exposure to Greek equities? Not many brokers offer access to the Athens exchange. So for anyone wanting to stock pick it can be a challenge.

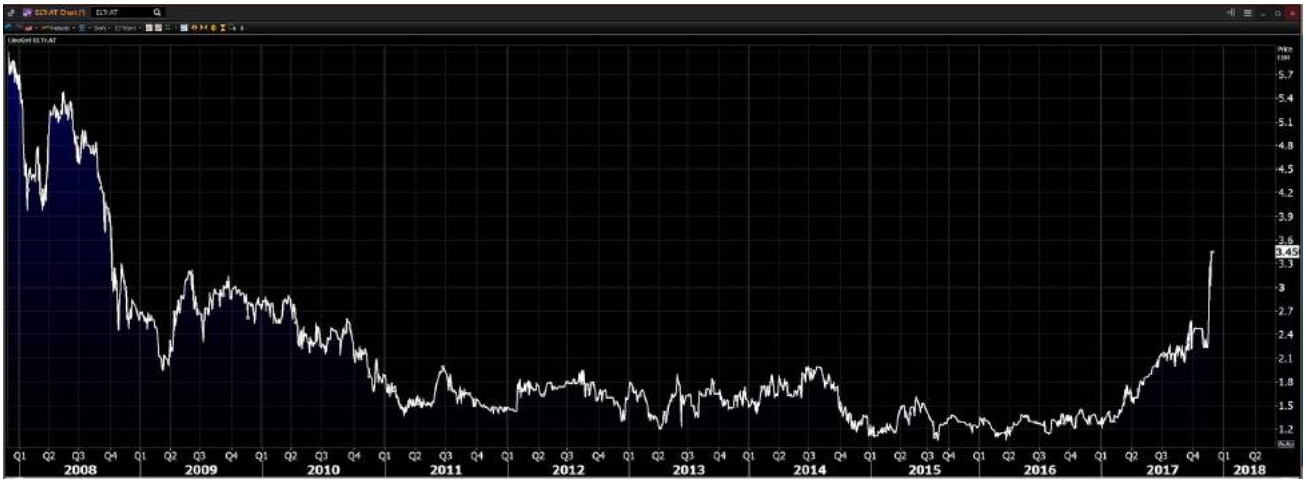
A simpler route is via Greek ETFs, and there are two that fit the bill: **The Global X MSCI Greece ETF (NYSE:GREK)**. And The second, The **Lyxor FTSE Athex Large Cap UCITS ETF (GRE)**, which trades on the Paris bourse. Apart from their different listings, they are very similar. Given this trade covers a stock market – as opposed to an individual stock – I think an exposure of up to 5% of capital wouldn't be the craziest idea.



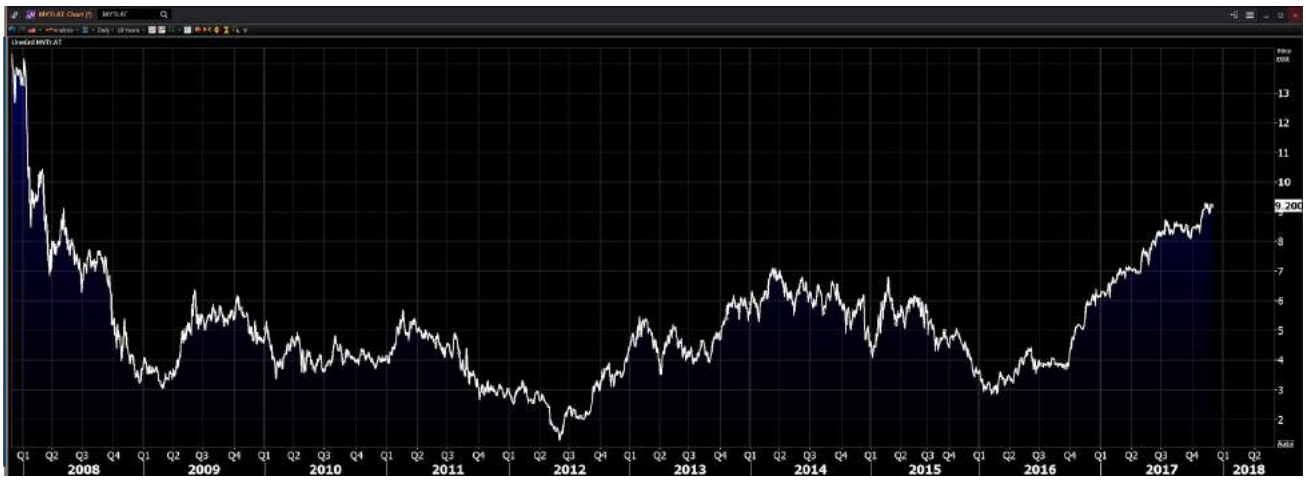
Discerning/experienced value investors can find many interesting bargains among Greek stocks. Greek luxury goods retailer Folli Follie (pink sheet: FLLIY) does 70% of its business in Asia and sports a P/Book of 0.75x, a P/E (actual and forward) 6x, ROA of 9.5%, ROE of 13%. If this company was listed on another exchange, almost any other exchange, it'd be trading at a multiple of this valuation.



Eltrak (only available on the Athens exchange) has the agency for Caterpillar in Greece. Chinese OBOR is going to require a lot of construction. Here's its valuations: P/Book 0.44x, P/E 8.5x, ROE 5.30%, and ROA 3.2%. This stock is very cheap, in a silent bull market, and nobody's looking.



Mytilineos, trading on the Athex Market, is best described as an industrial conglomerate. Recently formed out of a merger between construction company METKA, Aluminium Company of Greece, and electricity producer Protergia, it has a P/book 0.97, forward P/E 8x, ROA 2.1%, ROE 3.8%, and over the last 5 years, it hasn't had a losing year (from a net profit perspective).



As you can see, like so many Greek stocks, this stock has begun to move higher.
Bull markets creep up on folks when they least expect!

4. OIL & GAS

Recent events in the oil and gas industry indicate a bottom is at hand. Why a bullish view on oil stocks? Because **I wouldn't dare be short them at these levels for any length of time.** I know this sounds very simplistic, but when everyone thinks alike the opposite is most likely to happen (because there are few left to think alike).

Here are the key points:

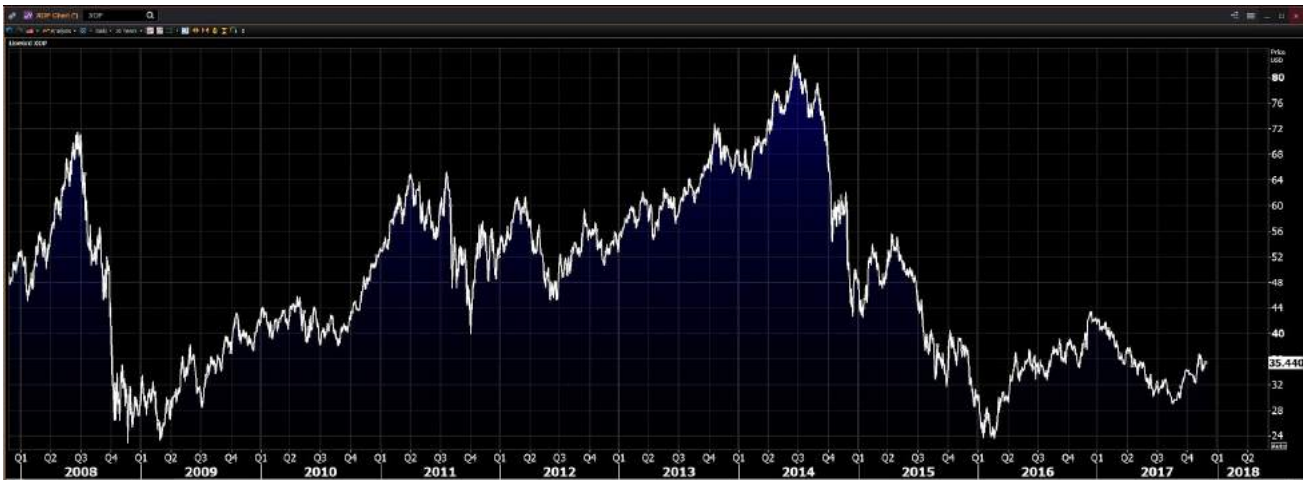
1. Sentiment towards oilers is absolutely toxic. Over the last 3 years, the average oil stock has fallen by as much as it did during the GFC – down some 60%.
2. Capital expenditure developing conventional oil and gas wells has dropped to "generational" lows. All the development activity has been focused on fracking, where supply is viewed as endless. But depletion rates are very high for shale oil and natural gas wells – about 60% depletion within the first 1-2 years and often as high as 85%.
3. Despite the green "revolution," demand for crude and especially natural gas continues to grow. Combine this with rapid depletion of shale reserves, and under development in offshore capacity, and we get a recipe for oil moving above US$100 barrel. Crazy I know.
4. Bankruptcies galore! There have been a number of high profile bankruptcies with the latest being Seadrill (near to a done deal). A sign of an approaching bottom.
5. M&A is increasing. Bigger players are swallowing smaller players at bargain prices.
6. Many smaller oilers are approaching their GFC lows which coincided with the lows of 2016. The strength of this support level should not be underestimated.
7. Nobody is pricing geopolitical risks in this space. Nobody. If for no other reason than taking a small portion of your portfolio and placing it in this sector you're effectively hedging what is some pretty extraordinary geopolitical risk.

You may ask, what is going to start the next bull market? Let me not kid you (or myself)... I don't know and I am not going to bother to try to guess.

It is almost impossible to tell what event will signal the bottom of the market. If we wait to see positive news flow, then we'll almost certainly lose an easy 100% move. With a 5 year plus timeframe, we're quite comfortable beginning to start small and build positions. Here are the trades:

Trade Option 1 (For the Conservative Type): Buy SPDR S&P Oil & Gas Exploration & Production ETF (XOP).

This ETF gives you exposure to the performance of the "average" US oil and gas stock - which is down some 60% from its peak, 15% away from its GFC lows. Buy XOP around US$35 with a 3% weighting. Place bids GTC to increase holdings by 25% at US$32.5, US$30, US$27.5, and US$25. So if SPDR S&P Oil & Gas Exploration & Production ETF fell to US$25 over the coming weeks you would have taken a 6% exposure to XOP.



Trade Option 2 - Options on SPDR S&P Oil & Gas Exploration & Production ETF

Multiple ways to go. Here's three choices:

- A bull call spread. Buying the January 2020 US$35 strike and selling the US$45 strike. This would cost about US$3 for the spread. And if XOP was to close at/above US$45 come January 2019 (a 30% move), it would equate to just over a 200% return. You would breakeven at US$37.
- An ATM Call. Buying the January 2020 US$35 strike call at US$3.85. IF XOP was to get to US$40 at expiry, then it would be a 150% return and 200% at US$47.
- An ITM call. Buying the January 2020 US$27 strike at US$11.00. If XOP rose to US$45, then this would equate to a 76% return.

Note: You can hold me to XOP being materially higher on a 5-year view (I wish I could get a 5-year option on XOP). But 18 months? That is way too short for me to breathe easy, so if I was to do the option trades, I'd position size it at a fraction of my overall oil & gas position and roll the contracts.

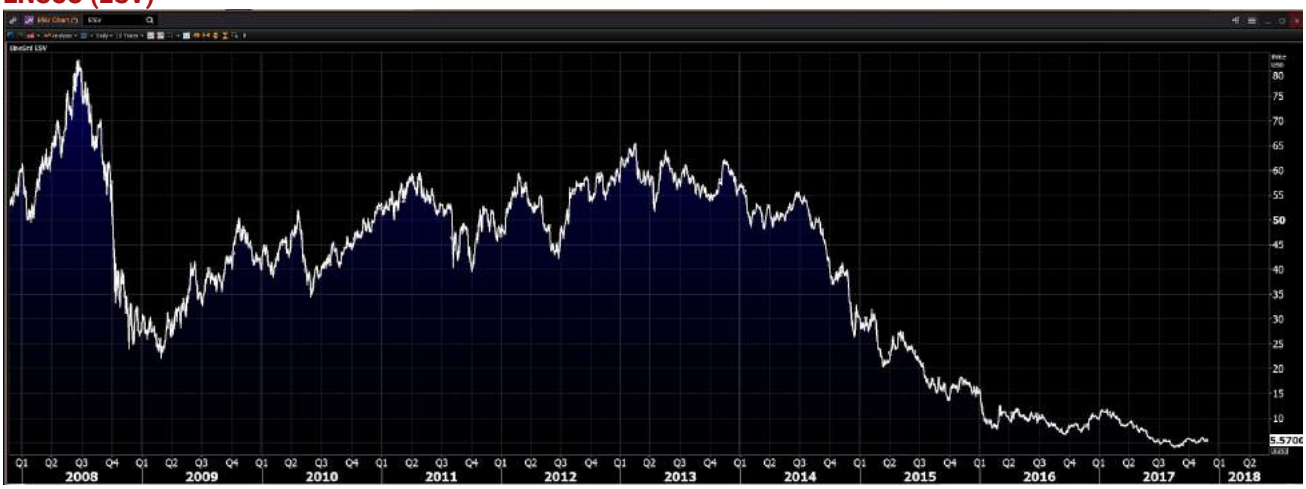
Trade Option 3 - Buy Offshore Oil Drillers: Rowan(RDC), Ensco(ESV), Transocean (RIG), and Diamond Offshore (DO) in equal amounts

The average P/Book of these stocks is about 0.4x. So with stocks priced for bankruptcy what happens to stock prices if something a little less worse than expected occurs? What happens if these (or most of them) survive this ferocious bear market when few ever expected them to do so? You get big, subprime-like returns. For the more aggressive investor.

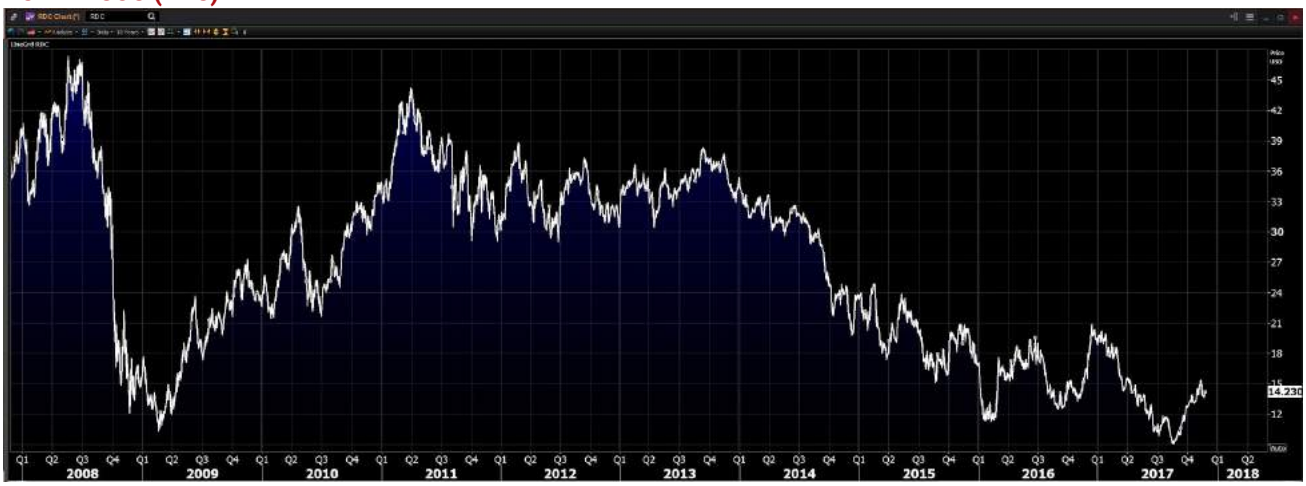
TRANSOCEAN (RIG)

DIAMOND OFFSHORE (DO)

ENSCO (ESV)



ROWAN COS (RDC)

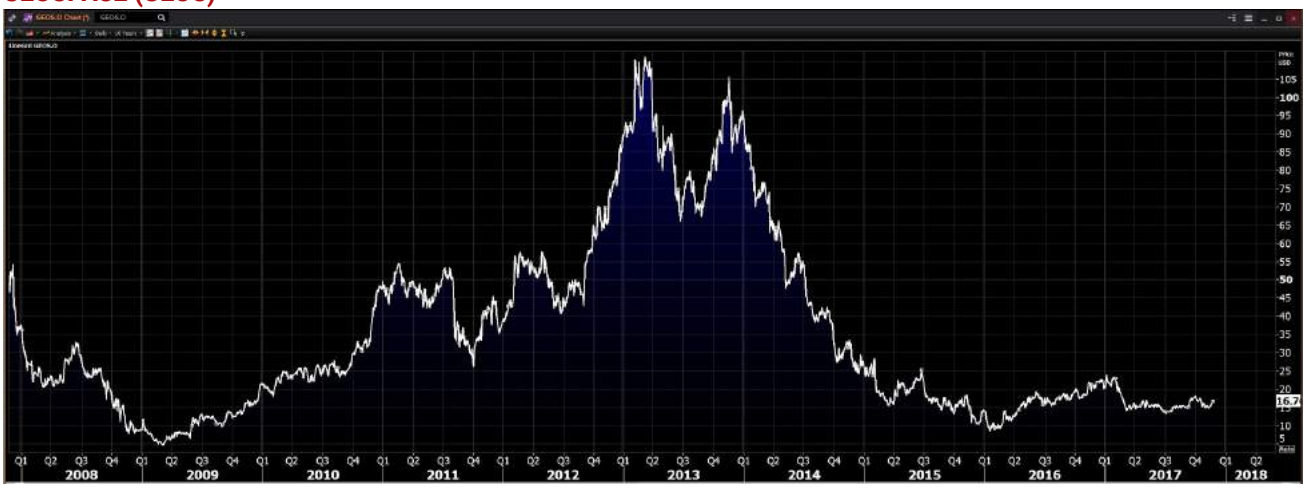


Trade Option 4 - Buy Offshore Service Stocks: Gulf Island Fabrication (GIFI), Geospace Technologies (GEOS), Helix Energy Services (HLX).

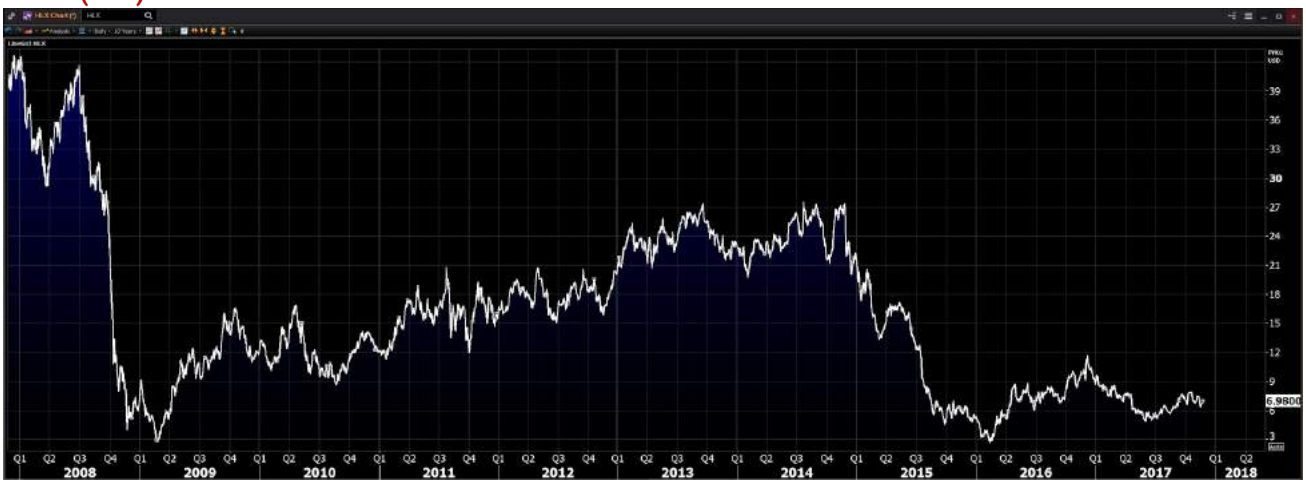
If you think the offshore drilling stocks have been ravaged, then offshore oil support stocks have been even more so. It seems a neck and neck race to get to the bottom. The stocks I have chosen have little or no debt and lots of cash on hand. So there is probably little chance of them going bankrupt like so many others have done so over the last few years. Appropriate for more risk tolerant accounts.

GULF ISLAND (GIFI)

GEOSPACE (GEOS)



HELIX (HLX)



Special Situations - Long-Term Warrants on Tidewater

As part of **Tidewater**'s restructuring coming out of bankruptcy, it issued two warrants with July 2023 expiry (6 years). These trade on the NYSE

Strike US$57.06, code TDW WS.A
Strike US$62.28, code TDW WS.B

Warrants are similar to options. The only real difference is that they are 1:1 instead of 1:100 - so if I buy 500 warrants it gives me the right to buy 500 shares come July 2023 at the respective strike.

The big question is just where will TDW be 6 years from now? Well, let's put it this way: It will have either gone bust (again)/be a lot closer to zero... or it will be up a multiple of its current value. If TDW were to close at US$130 come July 2023, and we had bought the 500 warrants of the 57.06 strike @ 2.0 the $1,000 would turn into about US$35K.

TIDEWATER (TDW)

Is that not a trade to make "The Big Short" boys water at the mouth? Just a couple of trades like this in your portfolio every 10 years or so can make one huge difference.

And one final word: **Patience**. I do expect stock prices of offshore oilers to be materially higher 5 years from now, but this isn't to say we couldn't see them fall another 30% from current

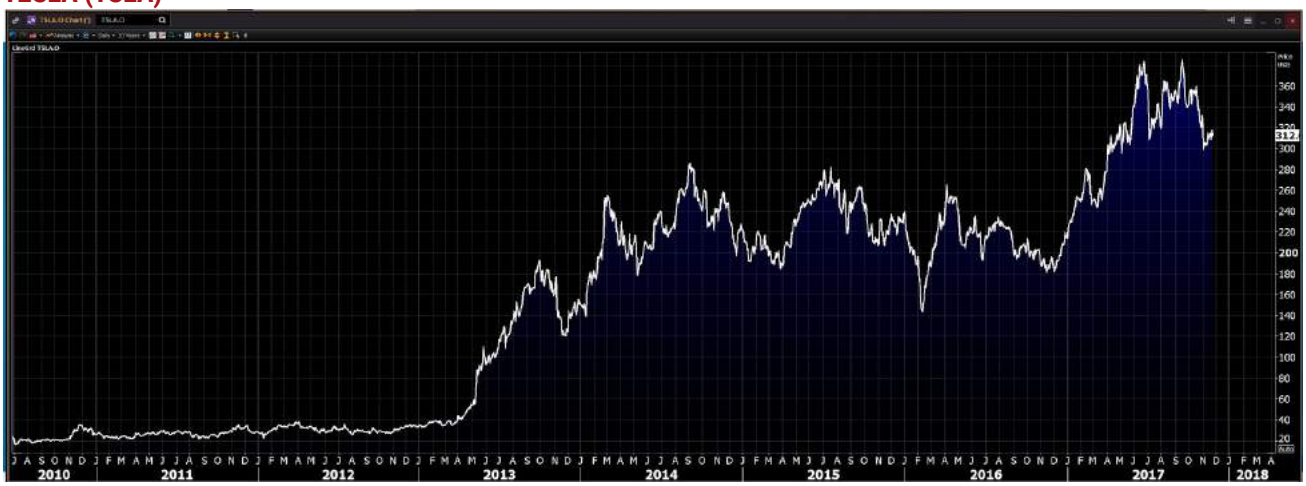
levels.

So if you like the “story” but wouldn’t be comfortable down 30% say 2 years from now then perhaps stick with buying SPDR S&P Oil & Gas Exploration & Production ETF and position size so that you can sleep well at night.

5. TESLA

Reality will eventually catch up with Tesla. Funding will dry up, and the stock will reach its intrinsic value which rhymes with hero. Within the next 4.5 years, it will trade below $50.

TESLA (TSLA)



Between 1996 and 2001 Enron was named "America's Most Innovative Company" by Fortune magazine. A relentlessly rising stock, pervasive hype and complex accounting obscured a truth few saw -- Enron was worth zero. By the end of 2001, that's where it traded.

Today, I believe Tesla is **Enron on wheels**. Tesla is absolutely the most "hyped and hoped" stock this side of the TMT bubble. Tesla survives on one thing: the market's current confidence in Elon Musk. While Musk is undoubtedly a smart man (albeit with an inability to tell the truth), math is math, and at $300, Tesla stock is vastly overvalued.

The company loses over $1bn per quarter, with no profitability in sight, and has ongoing need for capital. Tesla stock is up some 10-fold in 5 years and trades with a P/book ratio of 10x. But Tesla bulls are ignoring the company's current financial reality -- for them, it's "all about the future."

In November of 2016, Mark Spiegel gave a presentation at the Robin Hood Conference that captures my view on Tesla. It was entitled "Tesla is a zero". At the time, the stock traded at $200 -- it's now 50% higher. Here is a summary of his key points:

- Tesla has no real proprietary technology and its assets are worth less than its $6 billion of debt (including Solar City). So Tesla is actually worth less than zero.
- Current financials are bad, but massive EV competition looms -- in the next few years most major car makers will be offering EVs at prices subsidised by conventional vehicle sales (an option Tesla doesn't have).
- Despite his "darling" status, Elon Musk has a track record of making misleading statements.
- Tesla's hyped battery cells are actually all made by Panasonic, which will sell its cells to anyone. In fact the factory built in Australia was simply outsourced to Panasonic at a loss to Tesla.

- In autonomous driving, Tesla faces formidable competition from Audi, Mercedes, Volvo (jointly with Uber), BMW (with Intel), GM (with Lyft), Ford, Nissan - and the list goes on.
- Battery storage is at least as competitive as electric cars and autonomous driving.

Despite these facts suggesting an irrational valuation, Tesla's major shareholders are happy to ride the momentum, wilfully ignorant about truly abysmal Tesla financials (which I have to say are complete financial spaghetti and make no sense to either our team here or any fund manager worth their salt I've spoken with) and accelerating EV competition.

When the shareholders finally figure out what's happening and begin selling, there is a real risk that all the others will follow, and the bullish fairy tale unravels. This is what happened to Enron in 2001, and human nature never changes. Remember without continuous fresh capital Tesla is literally months away from running out of cash.

So what is the best way to apply a bearish view on Tesla? We have three basic choices:

Outright shorting could payoff, but given the inexorable momentum and high volatility of Tesla, one risks being stopped out repeatedly before the decline begins.

A pair trade -- long BMW, short Tesla, for instance -- would be a market neutral way to profit from Tesla's drop, however it's a complicated strategy best suited for seasoned traders.

My preferred strategy for playing a possible Tesla collapse in the months and years ahead is via an options strategy -- **a bear put spread**, using January 2020 options with $100/$50 strikes. You can study up on bear put spreads here but they're really quite straightforward.

We are positioning for a collapse in Tesla's stock price over the next 3.5 years. Yes, we can only get options going out to January 2020, but if the trade hasn't worked out by then, all things being equal, we'll go again, using the January 2022 options.

So we buy the January 2020 $100 (trading at 6.0) and sell the January 2020 $50 strike (trading at 2.5) for a total cost of 3.5 ($350 per spread). Then we wait for Tesla to trip up (or until investors come to realize that Tesla is just another version of AOL/ Enron).

Here are the scenarios (come January 2020):

1. Tesla is not below $100. You lose. Game over. Insert more coins.
2. Tesla closes at $90. You lock in a 185% return (($100 - $90 - $3.5)/$3.5).
3. Tesla closes at $50 or below. You lock in a 1328% return ((100 - 50 - 3.5)/3.5) and are famous forever after for calling the demise of Tesla (and making a buck or two to boot).

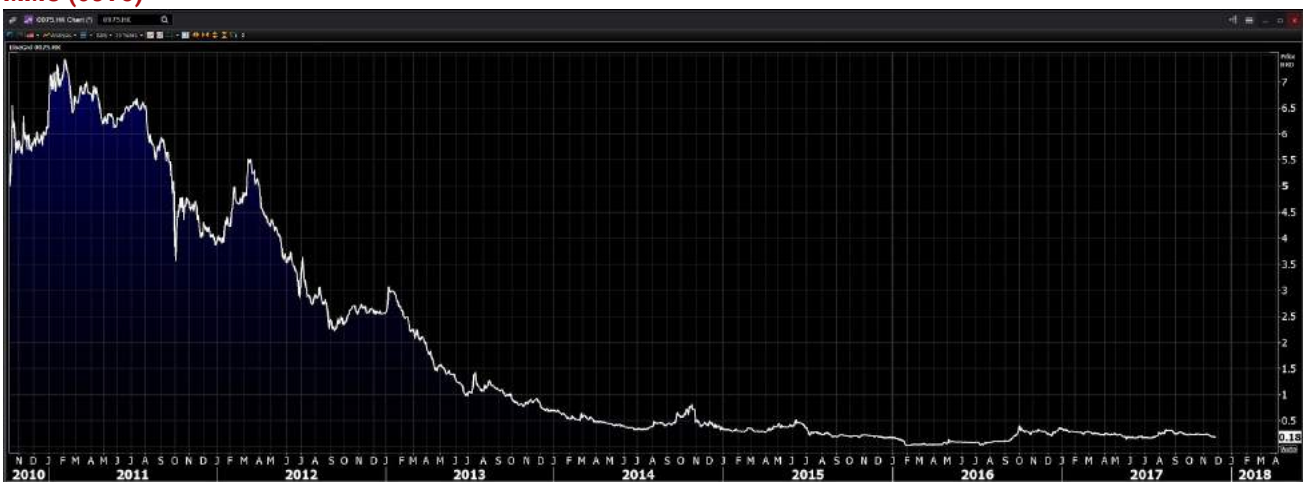
Betting on Tesla doing an Enron-like collapse in the next 18 months is pushing it, but over the next 4 years our probabilities look far healthier. My recommendation is to place half your bet now, then in January of 2020, assuming the trade still makes sense, place the other half of the bet -- buying the January 2022 $100/$50 bear put spread (or some other spread that gave you the same payoff).

This is intended to be a small trade that lurks in the background of your portfolio. If it takes off, it will have a material effect in the value of your portfolio, if not, then you would barely notice it.

6. MONGOLIAN MINING CORPORATION

On the surface, Mongolian Mining Corporation (MMC; SEHK 975) may appear to be an uninspiring coal producer and exporter. But behind the scenes there is a major investment opportunity developing.

MMC (0975)



MMC produces coking coal, a vital ingredient in steelmaking. Mongolia's neighbor China has significant and growing need for coking coal that cannot be satisfied domestically. The obscure Mongolian Mining Corporation is poised to be a significant source for China's coking coal demand.

This report on Mongolian Mining Corporations is unique for several reasons:

- MMC is a penny stock (currently trading at 0.19 HKD), and we don't typically buy penny stocks
- My recommendation of MMC is based on intel gathered from multiple trusted sources, none of whom are mentioned for what will become obvious reasons.
- The MMC investment story is multifaceted: It's a company play, a commodity play (sort of), a country play, and most definitely a political play.

Here are the unvarnished key points to the investment story:

Mongolian politicians really screwed up the place. Scaring off capital, killing mining deals and halting the truly massive project of Tavan Tolgoi coal mine (one of the world's largest untapped coking and thermal coal deposits). MMC holds to assets both within the Tavan Tolgoi coal formation and a new government was brought to power earlier this year. Importantly key members of the new GOM are major stakeholders in MMC. (Yup you guessed it)

- The core asset of the open pit mine is excellent. My sources think it is worth up to $2 billion on its own under normal circumstances. *I can't disagree*.
- MMC's wash plant is the only one of real scale in South Gobi and it is widely believed another will not be built as another water permit would be extremely hard/impossible to come by. Remember…new GOM…stakeholders. Approving competitors? Not gonna happen.

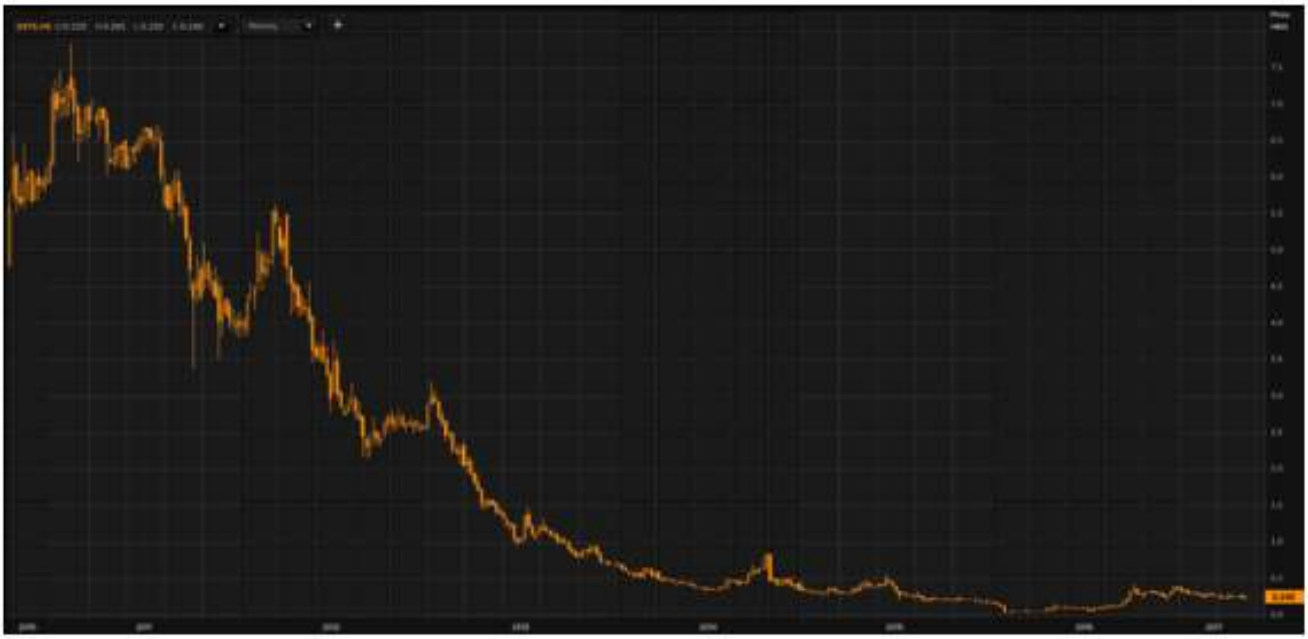
- The Chinese have made it very clear that they want a railroad built. The GOM has been mucking about with this for years. The difference now is that key GOM appointments include major shareholders of MMC and they all realise that a railroad will bring immense value to MMC. Additionally the GOM is bankrupt and in dire need of both the Chinese investment (building the railroad) as well as subsequent revenues that will flow from that.

- At some point, possibly soon this will be finalised and announced sending the shares of any asset related to this massive mine soaring.

A high level April 2017 meeting took place between high level mining officials of Mongolia and China, with both sides discussing "a comprehensive strategic partnership" of the two countries. A wide range of mining, railway and processing projects were discussed.

The key takeaway from this Mongolia-China natural resources summit is that there is clear pressure for collaboration not only from Mongolia but from China and the OBOR (One Belt One Road) initiative. All of this provides us with an underlying driving force that doesn't look like it's going away. Right now, none of this is priced into Mongolian equities, including MMC.

Here's the long term chart as I think it's worth putting into perspective:



Downside protection:

Post-reorganisation, MMC NAV will be ~$600M and yet the current market cap is ~$320M (including the 10% increase in share count). Based on numbers from 2016, MMC is trading at roughly 3x current year Enterprise Value/ EBITDA, which is cheap in anyone's book and we get the ETT deal as a free option.

MMC impresses us as a good value with favourable risk reward opportunities and extraordinary asymmetric upside.

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