



Friday Morning Coffee

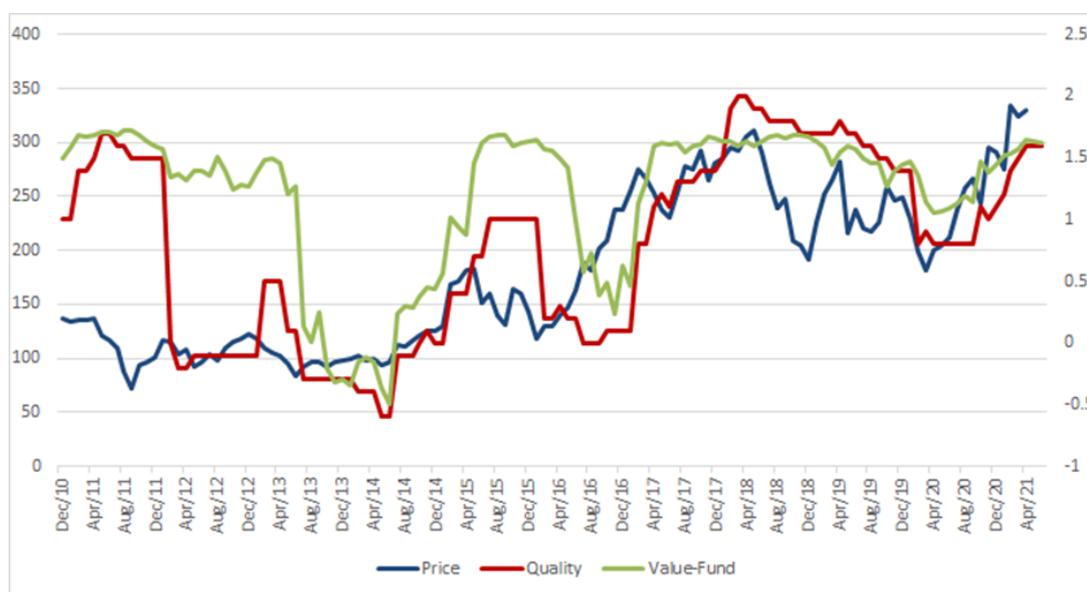
Nr. 152 — Popping commodities

We have been hunting over the past months for investment opportunities in Europe benefitting from the rise in industrial and precious metal prices. There are indeed powerful drivers behind surging commodity prices like inflationary pressures, resuming economic activity after Covid-19 and increased need for commodities for the green transition, for example batteries in e-cars, investments in power grids and wind energy.

As was to be expected, some miners have been popping up in our screenings. Nevertheless, the main issues we face while looking closer at these companies are geopolitical risk due to the regions where the mines are located, ESG issues linked to some historic projects, sometimes dubious management styles, and volatile corporate performance over time.

We think, however, to have found one exception: **the Swedish miner and smelter Boliden AB**. History draws back to 1920s, when an ore body was discovered which then became the Boliden mine. Boliden is mining mainly copper, gold and zinc in Sweden, Finland, and Ireland. It also runs smelters in the Nordics.

First and foremost, the company scores well in our proprietary quality-value framework on both the quality score and the fundamental value score. The quality score has consistently been superior or at least like the median European company.



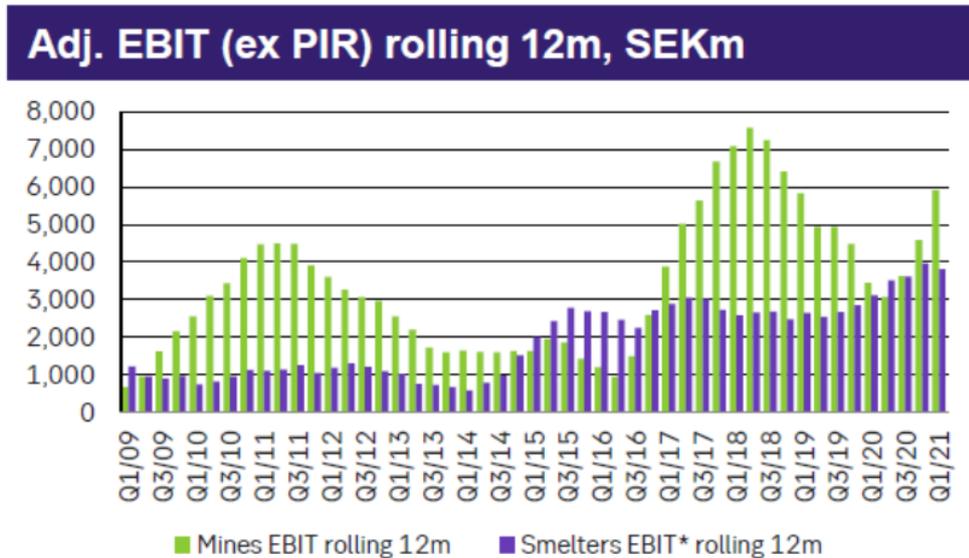
Source : ECP

This does not come as a surprise for different reasons:

1. Boliden is an extremely well-run business with a long history, and a solid management that has been allocating capital efficiently over time. Due to good CAPEX decisions, the company was able to prolong the lives of its mines. The all-important Aitik mine in Sweden for example, that represents 1/3 of the mining EBIT, has a remaining live of 30 years.
2. Boliden is not at geopolitical risk due to the regions it operates in.

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- The smelting operations are less volatile than the mining activity giving the company a more stable business mix than traditional miners. The below graph shows the EBIT evolutions in mining and smelting over time for Boliden.



Source : SEB

So, what about the valuation of Boliden? In our modelling the company looks undervalued. The company also trades on 11.1 times forward earnings, it will be debt-free this year, it has an expected dividend yield of 4.7%, and a return on equity of 15%.

Boliden is exactly the kind of inflation play we have been waiting for. Obviously, we need to provide you with the disclaimer that we are now invested in this business.

Have a nice weekend,

Léon Kirch, CFA
Partner & Chief Investment Officer

June 4th, 2021