

Independence of Mind

Kopernik Global Investors' David Iben and Alissa Corcoran explain why they cast such a wide net for inefficiently priced stocks, why they're focused on companies with scarce and in-need assets, what trait they consider non-negotiable to be a good investor, and why they're high today on the prospects for Golden Agri-Resources, KT Corp. and Seabridge Gold.

INVESTOR INSIGHT



David Iben
Kopernik Global Investors

Ask David Iben if he welcomes some return to normalcy in equity markets over the past year and he quickly challenges the question. "The idea that last year's little drop corrected fifteen years of reckless incompetence by central bankers and governments would be stunning," he says. "As a value investor, though, you have to love how wide the gap still is between insanely expensive and downright cheap."

Having invested well through the "incompetence" – Kopernik Global Investors' international strategy since 2015 has earned a net annualized 7.7%, vs. 4.1% for the MSCI ACWI (ex-US) index – Iben and deputy CIO Alissa Corcoran are now finding bargains in areas including non-U.S. telecom, palm oil, uranium and precious metals.

You recently laid out on the advent of your firm's 10-year anniversary your core beliefs as an investor. Let me prompt you on a few of those that shed a lot of light on your approach. Market efficiency?

David Iben: We've always believed that markets are demonstrably inefficient and that crowds can become shockingly irrational. Periodic bouts of extreme irrationality are what typically lead to bargains and our process is designed to take advantage of them.

Independent thought?

DI: Due to periodic madness of crowds, extreme value usually presents itself in very unpopular securities and asset classes. Our firm name comes from the given last name of Nicolaus Copernicus, who was willing to trust his own analysis at a time when it was dangerously unpopular to do so. That kind of independence of thought is a distinct advantage for investors.

"Value is not so much a philosophy as it is a prerequisite?"

DI: What something is worth is admittedly debatable, but paying more than intrinsic value seems to us to be more like speculating than investing. We apply a margin of safety to our estimates of intrinsic value for every security. The margin is larger for securities that have more risks and we'll never buy anything trading above that risk-adjusted intrinsic value.

Go anywhere?

DI: We're quite firm in our belief that markets are inefficient, but inefficiencies aren't everywhere all the time. The bigger our opportunity set the more likely we're able to find something that's mispriced. The biggest opportunity set would be all countries, all regions, all market caps – which is where we are.

Firm size matters?

DI: While scale brings advantages in many industries, we don't believe that's the case in asset management. When portfolios are too large it becomes harder to build positions in anything but mega-cap securities, where we think it's consistently harder to find the best bargains.

Actions have consequences?

DI: This is perhaps more important to heed now than ever. Intelligent people can argue over levels, but there are always consequences to excess. Debt, government intervention, the money supply and quite often share prices are important areas of current excess. It's important to build in a large margin of safety when investing in anything that could be adversely affected by these types of excesses.

Can you generalize about where today you're finding more inefficiency rather than less?

Alissa Corcoran: Because the competitive dynamics in most businesses are similar from country to country, we generally value similar companies on similar bases.

Then we risk adjust, as David mentioned, for factors like geopolitical risk, the quality of the assets, or corporate governance. When the market price is dramatically lower than our risk-adjusted value, that's when we get interested.

One general area that is pointing us to today would be things that are scarce and in need, which means we're invested in a number of resource-related businesses like agricultural commodities and industrial and precious metals. What is not scarce after more than a decade of reckless monetary policy globally is fiat currency. Historically when the monetary base increases the way it has, inflation eventually flows through into commodities. We've started to see some of that over the past year and believe the pricing impact on commodities that are scarce and in demand has a long way to run. Investors don't seem to believe inflation is here to stay, so the cheapest areas of the market to us are in resources where we believe at current prices we'll do nicely, but if inflation makes its way further into various commodities we'll do even better.

Uranium is a good example. Today's uranium mine supply is well below current demand and has been for many years. The difference has been made up by secondary supplies like excess inventories and repurposed weaponry, which is something that can't go on forever. Mines haven't been built because uranium market prices haven't been high enough to incentivize it. We value all our resource companies at the incentive price, which for uranium is likely somewhere between \$75 and \$100 per pound, vs. a current price of around \$50. For reference, it traded as high as \$137 per pound in 2007.

At the same time, the demand outlook has only gotten more positive over the past 12 to 18 months. Emerging markets continue to build nuclear reactors to generate carbon-free baseload power, and in developed markets there is an increased recognition of nuclear's role in the long-term energy transition. Japan is restarting nuclear power plants. In France and the U.S. plant lives are being extended. We don't believe this is a short-term phenome-

non and have multiple investments related to that, including Sprott Physical Uranium Trust [SRUUF], which holds physical uranium, and the shares of Kazakhstan's Kazatomprom [London: KAP], which is the largest and lowest-cost uranium producer in the world. It trades at 11x current earnings and pays a 6% dividend yield – we expect the return on patience in something like this to be quite attractive.

DI: Sometimes people look at our portfolio and say we seem quite thematic, but we're just looking for values and it's the market crowd that is thematic about what

ON CASTING A WIDE NET:

We're quite firm in our belief that markets are inefficient, but inefficiencies aren't everywhere all the time.

it loves and what it hates. Another general area we've found interesting for some time is emerging markets, which the crowd seems to dislike intensely, even though they account for roughly half the world's economy, most of the world's people, and a majority of the world's land and resources. We find comparable companies with comparable assets trading outside the U.S. for as low as 10% of what they'd go for if they were in the U.S. Even in a place like South Korea, which is an emerging market in name only, something like KT Corp. [Seoul: 030200], which is similar to Verizon in the U.S., trades at half of book value and at one-third the multiple Verizon does. We're always looking to take advantage of opportunities like that, and at a time when emerging markets are so out of favor they're fairly readily available.

Would Alibaba [BABA], a somewhat unexpected purchase of yours late last year, fall in that category as well?

DI: What sparks our interest is almost always the market changing its opinion on

something in a dramatic way. People loved China, then China was uninvestable. People loved big tech, then they stopped liking it – in China first and then in the U.S. For Alibaba it wasn't just a minor shift in sentiment, the stock went from \$300 to \$65 in the span of ten months and traded for a single-digit P/E. When people get to the point where they seem not to want to own something at almost any price, that can be music to our ears. There's usually a price for something.

It's unusual for us because we usually buy and hold for a long time, but in this case we bought very low and the stock so quickly bounced that we ended up selling. Maybe it's coming back again, we'll be ready if it does.

Describe in more detail your interest in South Korea's KT Corp.

AC: KT is the legacy government phone company in South Korea and today holds #1 market share in broadband Internet and #2 in mobile. It also still has 60% of the fixed-line market, but that currently makes up only about 5% of the business.

As Dave alluded to earlier, South Korea is not an emerging market when it comes to mobile and broadband technology, usage and penetration. The competitive sets in mobile and broadband are similarly consolidated to those in the U.S., and from an investment perspective we think it only makes sense to own the leaders like KT because they have such advantages of scale.

While in many ways the company is analogous to a Verizon or AT&T in the U.S., there are a couple differences to note. One is that KT's operating margins, at 6-7%, are currently significantly lower than both the 18-19% produced globally by the most-dominant telecoms and the 13-14% produced by the average big player. That's partly a function of stricter regulation in Korea and a more aggressive competitive set, but we believe KT can materially shrink that margin gap over time.

There is also concern over regulators opening the mobile market to a fourth competitor – in addition to KT, SK Telecom [Seoul: 017670] and LG Uplus [Seoul:

032640]. While that's an overhang, no one has actually stepped up to be that fourth player, which is not that surprising given that companies in that position worldwide have traditionally had a very difficult time. While there may be volatility as this plays out, we in the end don't see this as a real threat to KT's long-term profitability.

Flesh out how you're looking at valuation at today's share price of ₩30,400.

AC: We think a lot about what could be, and in this case if the company made the 13-14% operating margins of similarly

situated global peers with massive, scarce network assets and it earned the 2.5x revenue multiple those peers earn, the implied stock price would be roughly 3x the current level. That's not the only scenario we look at, but even moderating those assumptions quite a bit leads us to an estimated share price at least double the current level. With the stock trading at half of book value we think we're well protected on the downside. That risk/reward makes this one of our largest positions.

DI: I would add that Korea in general appears particularly unliked by the market.

In the same way KT is incredibly cheap relative to comparable companies elsewhere, we're finding a similar dynamic in autos with Hyundai [Seoul: 005385] and in a big technology conglomerate like LG Corp. [003550]. We don't know how long the collective dislike lasts, but we think it's providing a great opportunity for investors who care about value.

Let's talk about one of your agricultural-commodity ideas, Golden Agri-Resources [Singapore: E5H].

AC: This is one of the largest global palm-oil producers with around 400,000 hectares of plantation land, most of it in Indonesia. They also own and operate significant downstream processing facilities in and around their plantations. The land is planted primarily with African oil palms, the fruit of which is the best source of palm oil.

The global supply capacity for palm oil has remained relatively fixed for years, mostly due to significant crackdowns on deforestation in Indonesia and Malaysia, where 85% of the commodity is sourced. Increasing yields on existing land can have some impact, but the risk of material supply growth seems to us to be quite limited.

Demand, on the other hand, is growing due to population growth and a general increase in demand for edible oils. Palm oil can be processed for use in a wide variety of end products, including packaged foods, shampoos, toothpaste, lipstick and detergent. Its properties make it spreadable, resistant to oxidation and stable at high temperatures, all of which increases the applications for which it is useful.

There's also an environmental angle here increasingly in favor of palm oil. African oil palms are quite land-efficient. To get the same amount of alternative oils from soybeans or coconuts requires far more land – globally, palm oil supplies 40% of the world's vegetable oil using just 6% of the land. The oils are also used in the generation of bio-energy.

At any rate, the company falls squarely in the category of a producer of what we consider a capacity-constrained product

INVESTMENT SNAPSHOT

KT Corp.

(Seoul: 030200)

Business: Leading provider of telecom services in South Korea, offering broadband Internet, cellular and fixed-line services to residential and commercial customers.

Share Information

(@2/27/23, Exchange Rate: \$1 = ₩1,318):

Price	₩30,400
52-Week Range	₩29,800 – ₩39,300
Dividend Yield	6.4%
Market Cap	₩7.41 trillion

Financials (TTM):

Revenue	₩25.65 trillion
Operating Profit Margin	6.6%
Net Profit Margin	4.9%

Valuation Metrics

(@2/27/23):

	030200	S&P 500
P/E (TTM)	6.1	17.8
Forward P/E (Est.)	5.8	17.9

Largest Institutional Owners

(@12/31/22 or latest filing):

Company	% Owned
Silchester Intl Inv	10.6%
National Pension Service	10.5%
Shinhan Financial	5.9%
T. Rowe Price	4.5%
Kopernik Global Inv	2.9%

Short Interest (as of 2/15/23):

Shares Short/Float	n/a
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030200 PRICE HISTORY



THE BOTTOM LINE

In a South Korean market full of relative deals, Alissa Corcoran thinks this one stands out due to the company's strong position in an attractive industry and its truly bargain-basement valuation. Were it to modestly improve peer-lagging profitability and as a result earn a somewhat higher multiple, she believes the stock could at least double in price.

Sources: Company reports, other publicly available information

that is needed by mankind. A lot of these types of companies we think are deeply undervalued today.

How deeply undervalued in this case, from the current price of 26 Singapore cents?

AC: Like many commodities, crude palm oil prices struggled for years but bounced back strongly as a result of the quantitative-easing tidal wave. But the common stocks of the corporate owners of these increasingly valuable commodities have not come close to keeping pace. Today Golden Agri-Resources stock trades at less than

3.5x trailing earnings, half of book value and with a 7% dividend yield.

One way we value the stock is to look at the value of the company's plantation land on an enterprise-value-per-acre basis. On that metric, the shares now go for about \$3,600 in EV per acre. That's far below the \$17,000-\$18,000 per acre the best farmland in the world goes for, even though the profitability of palm-oil land over the cycle is not that dissimilar to what you'd see for other food commodities that command much higher land prices.

From that theoretical comp, we almost always require a significant discount to

account for all the vagaries of the situation, such as in this case that you're talking about land in Indonesia rather than in Iowa. If we say we want half off, which we think is reasonable in this case, we're still looking at an asset value for an in-demand commodity that is 2 to 2.5x times what the market is currently paying.

Why among all your choices of industrial and precious metals producers does something like Seabridge Gold [SA] – which owns both types of assets – stand out as an opportunity?

DI: What we find interesting in these types of companies today is the massive premium the market is paying for assets being produced right now over assets that have latent value. If you ask someone what an ounce of gold above ground is worth, they'll say around \$1,900. But bury that ounce of gold below ground and, depending on where the ground is, people on Wall Street might say it's worth \$700 or \$500 or \$300. People don't like uncertainty and they want cash flow, so the gold – or copper, or nickel, or uranium – that hasn't yet been mined is valued at fire-sale prices.

As a result, for a lot of companies with large reserves, we think we're buying them at levels that even if the commodity prices stay where they are we'll make decent money. But if all the money created out of thin air over the past 15 years finds its way into the prices of commodities where demand is likely to significantly exceed constrained supply, we'll make a lot of money.

We've already talked about how not much investment in recent years has gone into finding new supply of things like copper, uranium and gold, so we want to invest in companies that have already found lots of copper, uranium and gold. We'd prefer them to be in reasonably safe geographic areas. And to get the most optionality we don't have to pay for, we don't want them to be producing right now. If prices are likely to go up in the future – which we're betting on for copper, uranium and gold, among others – we'd actually prefer they produce what they've found five or ten years from now rather

INVESTMENT SNAPSHOT

Golden Agri-Resources
(Singapore: E5H)

Business: Singapore-based farming business engaged primarily in the cultivation and harvesting of African oil palm trees; plantations are located mostly in Indonesia.

Share Information
(@2/27/23, Exchange Rate: \$1 = S\$1.35):

Price	S\$0.26
52-Week Range	S\$0.24 – S\$0.35
Dividend Yield	7.2%
Market Cap	S\$3.23 billion

Financials (TTM):

Revenue	S\$11.47 billion
Operating Profit Margin	9.3%
Net Profit Margin	7.7%

Valuation Metrics
(@2/27/23):

	E5H	S&P 500
P/E (TTM)	3.3	17.8
Forward P/E (Est.)	4.8	17.9

Largest Institutional Owners
(@12/31/22 or latest filing):

Company	% Owned
Silchester Intl Inv	11.0%
Kopernik Global Inv	4.9%
Dimensional Fund Adv	1.3%
Heptagon Capital	0.9%
BlackRock	0.9%

Short Interest (as of 2/15/23):

Shares Short/Float	n/a
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E5H PRICE HISTORY

THE BOTTOM LINE

The company is a good example of what Kopernik Global is finding undervalued today: a producer of a "capacity-constrained product that is needed by mankind," says Alissa Corcoran. She believes the value of its underlying land assets, even after applying a big discount due to geography, are still worth 2 to 2.5x what the market is currently paying.

Sources: Company reports, other publicly available information

than now. You definitely don't want them selling a bunch of shares today to finance spending on production that essentially shortens the value of the option on rising prices.

All of which brings us to Seabridge, whose founder/CEO, Rudi Fronk, seems to get all that. The company owns something on the order of 90 million ounces of gold and nearly 20 billion pounds of copper in the ground, mostly in Canada. In both cases it's a mix of "proven and probable" and "measured and indicated" reserves, so in valuing the company we haircut those amounts significantly. In the

case of the gold, there's also a good chance the company partners with someone else to extract it, so we reduce the estimated reserves of Seabridge accordingly.

To arrive at what the final estimated reserves are worth, we use what we believe are prices that would incentivize production – around \$2,000 per ounce for gold and \$3.25 per pound for copper – and the cash margins at those prices, which we estimate at \$480 per ounce of gold and 78 cents per pound of copper.

After all that risk-adjusting and estimating, what upside could you imagine here

from today's market value – at a share price of \$10.80 – of around \$885 million?

DI: We think eventually the gold could be worth as much as \$20 billion and the copper as much as \$10 billion. Obviously a lot can happen that would cause the reserves to be worth less than \$30 billion, and given the time that would take the present value of that amount is materially less than \$30 billion. But we're talking about a market cap today of less than \$900 million. There's a large margin of safety built in there. Again, we think that's driven by the fact the market likes cash flow in these businesses today and has little patience for waiting for cash flow in the future.

Is this something you might imagine being acquired sooner rather than later?

DI: It's a match made in heaven. There are big gold companies that tend to be reasonably well managed, with excellent operating people that can make things happen. Their big problem is that they lack reserves and are typically producing much more than they're finding.

Then there are other companies like Seabridge that through luck or skill have massive resources but that don't, generally speaking, have the expertise and certainly don't have the capital to produce it all. Thus far it's not happening, but we think it's clear as day that someday the big companies will start buying the small ones to unlock the value in their resources.

You have over time been fairly heavily invested in Russia. How are you processing all that's going on there?

DI: We got most active in Russia starting in 2015 when the country was hated after annexing Crimea. The result was that in a number of areas – energy, banks, retailers, housing companies – you could find high-quality firms trading at one-tenth of what peers were selling at around the world. Over the next five years Russia was one of the best-performing markets in the world. We took a lot of profits through that, but still had material exposure to the country

INVESTMENT SNAPSHOT

Seabridge Gold

(NYSE: SA)

Business: Pre-production precious-metals miner founded in 1999 that holds significant reserves of gold and copper that are located at multiple owned properties in Canada.

Share Information (@2/27/23):

Price	10.83
52-Week Range	10.03 – 22.22
Dividend Yield	0.0%
Market Cap	\$885.5 million

Financials (TTM):

Revenue	n/a
Operating Profit Margin	n/a
Net Profit Margin	n/a

Valuation Metrics

(@2/27/23):

	SA	S&P 500
P/E (TTM)	n/a	17.8
Forward P/E (Est.)	n/a	17.9

Largest Institutional Owners

(@12/31/22 or latest filing):

Company	% Owned
Pan Atlantic Bank and Trust	7.7%
National Bank Inv	5.7%
Van Eck Assoc	4.5%
Kopernik Global Inv	3.3%
Paulson & Co.	2.6%

Short Interest (as of 2/15/23):

Shares Short/Float	3.5%
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SA PRICE HISTORY



THE BOTTOM LINE

Investors are paying a massive premium for resource assets being produced right now over assets to be produced in the future, says David Iben. That's why he's investing in companies like this one, with almost exclusively latent gold and copper assets that he believes will ultimately be worth multiples of the value accorded them by the market today.

Sources: Company reports, other publicly available information

when Russia invaded Ukraine a little over a year ago.

In the short term that obviously hasn't been good. What we still believe longer-term is that we own good companies, like Gazprom in energy and Sberbank in banking, that remain very profitable and where the value appears to still be going up. But we don't know if or when we'll ever see the money. If we get nothing, that will be unfortunate. If the market eventually opens up and we get even 30 cents on the dollar, we'll be fine. If we ultimately get 100 cents on the dollar, we'll make a lot of money. On any given day there are things that make us look smart and things that make us look not smart. Even while

things like Gazprom were collapsing, we were making very good money on our U.S. natural-gas investments. Hopefully the process over time continues to work out in our favor overall.

One last question: We see that you both have M.B.A.'s from the University of Southern California. Is that how the connection was made?

AC: I was one of four students who were selected to start investing a new global value fund that Dave had seeded and was lucky enough to get to know him through that. I was graduating at around the time he was setting up Kopernik in Tampa and

I jumped at the chance when he offered me a job to join as an analyst. I became the director of research in 2019 and as of last year was named Deputy Chief Investment Officer and co-manager of the All-Cap strategy.

DI: I've been involved with the investment fund for a number of years, and I enjoy the opportunity to meet with and get to know the students. With Alissa it was question after question after question. She stood out as someone with a lot of intellectual curiosity, which is non-negotiable if you want to be a good investor. **VII**