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Editor and Publisher: Gordon Pape
Associate Publisher: Richard N. Croft

STOCK GAINS 22% A YEAR

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By Gordon Pape, Editor and Publisher

Are you interested in a company whose share price shows an average annual growth rate of 22% over the past 15 years.

A company whose stock pays a quarterly dividend of US$1.88 per share.

A company that has increased its annual payout for more than 15 consecutive years.

A company with almost $33 billion in the bank, as of the end of March.

No, it's not a tech stock. I'm referring to UnitedHealth Group (NYSE: UNH), one of the world's dullest and most rewarding companies.You may already be familiar with it. UNH has been on our recommended list since March 2014, when it was trading at $76.01 (figures in US dollars). It has been part of our highly successful Growth Portfolio for the same length of time.

UnitedHealth is the world's largest health insurance

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provider by revenue. The stock has a market cap of about $450 billion. The financial numbers read more like those of a technology company than an insurer. In 2023, UNH reported revenues of $371.6 billion, up 14.6% year-over-year. Earnings attributable to common shareholders were $22.4 billion ($23.86 per share). The company's return on equity was an impressive 27%.

The company's origins go back to late 1974 with the founding of Minnesota-based Charter Med Incorporated by Richard Taylor Burke. The company originally processed claims for doctors at the Hennepin County Medical Society. United HealthCare Corporation was founded in 1977 to purchase Charter Med and create a network-based health plan for seniors. It went public in 1984 and changed its name to UnitedHealth Group in 1998.

UNH has grown organically and by acquisition over the years since. Some of the companies it has purchased were Florida-based Ramsey-HMO (1994), The MetraHealth Companies Inc. (1995), LifeMark Health Plans (2001), and AmeriChoice (2002). Between 2000 and 2020, the company made at least one acquisition almost every year.

The company consists of two operating segments. UnitedHealth Care provides insurance coverage for employer plans and to individuals around the world. More than 50 million people are covered by its programs.

Optum was formed in 2011. It's the technical branch of the company, providing data and analytics, pharmacy care services, population health, healthcare delivery, and healthcare operations. The company reported first quarter revenue of $99.8 billion, up over $8 billion year-over-year. But it booked a loss of $1.53 a share, due in large part to the impact of a hacker attack on subsidiary Change Healthcare. The company also recorded a $7 billion first quarter loss on the sale of its Brazilian operations. Adjusted earnings, which strip out one-time costs and profits, were $6.91 per share.

The company said total cyberattack impacts in the first quarter amounted to $0.74 per share and the company estimates full year 2024 impacts of $1.15 to $1.35 per share. In the first quarter, this included $0.49 per share to support direct response efforts such as the Change Healthcare clearinghouse platform restoration. The company estimates direct response costs of $0.85 to $0.95 per share for full year 2024 and another $0.30 to $0.40 per share for business disruption.

Looking ahead, the company updated its full year 2024 net earnings outlook to $17.60 to $18.20 per share to reflect the Brazil sale and the estimated direct response costs of the cyberattack. The company maintained its adjusted net earnings outlook of $27.50 to $28 per share.

The result of all this has been a pull back in the share price to $495.35 from the all-time high of $554.70 reached in early December. If you don't already have a position, this is a good time to start building one, with the share price down over 10% from its high.

Action now: Buy.

THE WEEK

Indexes

Dow Jones Industrials
38,239.66 (+0.07%)

S&P/TSX Composite
21,969.24 (+0.07%)

Nasdaq
15,927.90 (+4.2%)

S&P 500
5,099.96 (+2.7%)

A strong bounce back from last week's selloff.

Noteworthy

CN Rail (TSX: CNR, NYSE: CNI). CN reported revenue of $4.25 billion, slightly below the consensus of $4.28 billion. Adjusted operating ratio came in at 63.6%, lower than the consensus of 63.8%. The company continues to expect adjusted EPS growth of 10% year-over-year in 2024. The stock finished Friday in Toronto at $171.25, down $4.22 for the week.

Visa (NYSE: V). The company reported second quarter 2024 revenue of US$8.8 billion and EPS of US$2.51. The results handily beat expectations of US$8.62 billion and US$2.44 respectively. Visa's payment volume climbed 8% in the second quarter and the company expects net revenue percentage growth in the low double-digits for the current quarter. The shares finished Friday at US$274.52, up US$4.74 on the week.

IBM (NYSE: IBM). The stock fell after the company reported a miss on revenue. However, adjusted EPS of US$1.68 topped the consensus of US$1.60. IBM also announced it will acquire HashiCorp in a deal valued at US$6.4 billion. IBM shares finished Friday at $167.13, down $14.45.

Verizon (NYSE: VZ). The company topped earnings estimates but revenue of US$33 billion was modestly below the consensus. Retail postpaid phone net subscriber losses of 68,000 in the quarter came in better than the street's expectation of 100,000 subscriber losses. The company maintained its fiscal 2024 guidance. The shares closed Friday at US$39.68, down US$0.81 for the week.

GOLD HITS NEW HIGHS

By Gavin Graham, Contributing Editor

We live in a time of rapid change. What seemed a certainty a few weeks ago now looks problematic as conditions evolve.

For example, the market had been expecting the start of a rate cutting program by the US Federal Reserve and Bank of Canada by the summer. Now those hopes have been sharply reduced from a potential six reductions of 0.25% each to possibly only two. That would bring the Fed Funds rate down to 5%, and then not until late in the year.

Despite the change in tone on the interest rate front, the price of gold kept rising. It recently broke through $2,400 an ounce (prices in US dollars), well above its previous high of $2,150, reached in 2020. It has now pulled back to $2,349.10 but from a chart perspective, there is nothing to stop it hitting the next big round number of $2,500. Some brokers, such as Goldman Sachs, have raised their year-end forecast for the gold price to $2,700 an oz.

It should be noted this is only a 25% increase from its level at the end of 2023, not at all an aggressive target. With the competing "risk-free" alternatives of cash or government bonds offering a guaranteed 5%+ return, the headwinds for a metal which provides no income, and indeed has costs associated with its safekeeping, seem to be very high. Yet the price keeps rising.

One of the reasons may be that the real (after inflation) yield on cash or bonds is nearer 1.5%. The most recent US CPI number was 3.6% in March and has come in above expectations since the beginning of the year. As a result, the market has doubts about the ability of central banks to get the rate of inflation back to their 2% target anytime soon. In fact, some commentators now expect no cuts in rates at all this year. Fed Chair Jay Powell wants to avoid repeating the mistakes of his 1970s predecessor, Arthur Burns, who cut rates too soon after the initial oil price shock in 1973 and saw inflation come roaring back.

If CPI inflation does remain at an elevated level in comparison to the pre-Covid period of exceptionally low interest rates (in some cases negative), gold becomes very attractive. It's an asset that retains its real value over long periods of time, is no-one's liability, and which can be accessed through a brokerage account at a cost of 0.1% p.a. for the SPDR Gold ETF (NYSE: GLD).

Higher interest rates for longer also reduce the attractions of long duration assets like technology growth stocks, such as the so-called Magnificent Seven

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Gold—continued from page 4…

(Amazon, Apple, Alphabet, Meta, Microsoft, Nvidia, and Tesla). They sold off sharply when interest rates began their abrupt rise in 2022, with the tech dominated Nasdaq off 30%. They recovered strongly last year as investors became convinced the rise in rates was coming to an end and would be starting to fall.

However, since hitting a new all-time high of 5,264.85 in March, the S&P 500 Index is off over 3% for its longest down period in over a year. Some of the Magnificent Seven, such as Tesla (-43%) and Apple (-14%), are actually down for the year. AI titan Nvidia, although still up 60% for the year, is off 15% in the last month, wiping over $300 billion from its market capitalization.

Despite the recent slump, the tech mega caps are still market behemoths. As I write, Microsoft is worth just under $3 trillion, Apple $2.5 trillion, Alphabet, Amazon and Nvidia between $1.8-1.9 trillion, Meta $1.2 trillion. Tesla brings up the rear at less than $500 billion.

By comparison, the entire gold and precious metals stock market capitalization barely amounts to less than $200 billion. The three largest gold stocks listed in North America, Newmont Mining (NYSE: NEM), Agnico Eagle (TSX, NYSE: AEM), and Barrick Gold (TSX: ABX, NYSE: GOLD) are worth $44 billion, $43 billion, and $41 billion respectively. That's less than 10% of Tesla's market capitalization.

While the GLD ETF is up 13% so far this year, and the iShares Global Gold Mining ETF (TSX: XGD) is up 6.7%, Barrick is actually down by 5% and Newmont by 10%. Some gold stocks, like IWB recommendations Agnico Eagle and Pan American Silver, are up year to date, by 15% and 17% respectively. But the level of disinterest by retail investors in the gold story is demonstrated by the fact the GLD ETF has experienced outflows of over $500 million over the last few months, even while gold has been breaking out to new highs.

Investors were also unimpressed by Newmont and Barrick's year-end reports, which showed rising All-In Sustaining Costs (AISC) per ounce and lower growth in production than had been anticipated. Newmont, which completed the largest ever gold mining acquisition with the takeover of Australian based miner Newcrest in 2023, announced plans to divest six of the smaller assets it acquired including two operating mines (Eleonore in Quebec and Porcupine in Ontario) as well as the Coffee mine in the Yukon and Haverion in Australia.

Barrick increased its operating cash flow by 7%, and adjusted net earnings by 12%, while replacing 112% of its equivalent gold production in 2023. But the first quarter gold production to March 31 of 940,000 oz. was below expectations. Also, AISC per oz. was 7-9% higher than the previous quarter. That was enough to drive the share price down 5% on the day it reported preliminary estimates.

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GAVIN GRAHAM'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

Agnico Eagle Mines Ltd TSX, NYSE: AEM

BUY

Originally recommended on Dec 3/12 (#21242) at C$55.39, US$55.80. Closed Friday at C$89.55, US$65.52.

Background: Agnico Eagle is the largest listed Canadian gold miner and one of the three largest producing precious metal miners in North America. Its eleven mines are all located in mining friendly jurisdictions in developed countries. Eight are in Canada, including the largest (Malartic) and second largest (Detour Lake) gold mines in the country. Others include Amaruq and Meliadine in Nunavut. AEM also owns three mines are in Finland, Mexico, and Australia.

Performance: The stock is up 26% since the last review in November 2023, but still well below its all-time high of $110, hit in 2020 when gold first passed US$2,000 per oz.

Recent developments: In the year ended Dec. 31, Agnico had record gold production of 3.44 million oz, up 10% from 2022 at an AISC of US$1,179 per oz. up 6%. Higher production was due to the purchase of the remaining 50% of the Malartic mine in Quebec in March 2023 as part of the takeover of Yamana Mining. There was also a full year of production from Detour Lake, Macassa, and Fosterville mines. They were bought in February 2022 through the takeover of Kirkland Lake Gold.

Higher expenses were due to cost inflation from mining open pit output at Malartic and ore stockpiles at Meliadine.

Net income was $1.94 billion ($3.97 per share) for 2023, while adjusted net income was $1.1 billion, up 10% ($2.24 per share). Cash provided by operating activities was $2.6 billion, up from $2.1 billion, while free cash flow was up 80% to $947 million. Note that the company reports in US dollars.

Agnico took a $667 million impairment charge on the Macassa and Pinos Altos mines acquired in the Kirkland Lake deal. Capital expenditures were $1.48 billion in 2023 and are expected to rise to $1.65 billion this year. Gold production is forecast to rise to 3.35-3.55 million ounces in 2024 and 3.4-3.6 million in 2025 at a slightly higher AISC of $1,200-$1,250 per oz.

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Franco-Nevada TSX, NYSE: FNV

BUY

Originally recommended on July 26/10 (#20127) at C$31.59, US$30.45. Closed Friday at C$167.97, US$122.93.

Background: Franco-Nevada is the largest and longest established of the royalty streaming companies by market capitalization ($31.2 billion). It has over 115 producing assets, diversified both by geography and minerals. Approximately 75% of its production comes from precious metals, with most of the remainder from oil and gas.

Performance: Franco-Nevada has been the best performing precious metals stock since its IPO in 2007. Its 15% p.a. compound return has beaten the S&P 500 and Nasdaq, as well as far outperforming the 6% p.a. from gold itself and the -2% p.a. from the Gold Mining ETF.

However, the stock has fallen 25% from its all-time high of $217 as Panama's decision to shut down the enormous Cobre Panama copper mine last December meant that Franco-Nevada took a $1.1 billion impairment charge, writing the asset down to zero. (Note that the company reports in US dollars.)

Recent developments: The closure of Cobre Panama meant that Franco-Nevada has lost 128,000 gold equivalent ounces (GEO) of annual production. That meant its 2023 precious metals production was 488,189 GEO ($950.9 million revenue) compared to 510,385 GEO ($919.7 million) the year before. Its forecast precious metals production for 2024 is 360-400,000 GEO against 359,591 GEO in 2023 (excluding Cobre Panama).

Meanwhile, its oil and gas royalties also saw a sharp fall in 2023 on lower prices. So, its non-precious metals GEO of 138,386 ($268.1 million) was down 40% against 219,575 ($396 million) in 2022.

For the whole of 2023, Franco-Nevada's GEOs were down 14% to 627,045 ($1.22 billion), with the falls in output somewhat offset by the rise in the gold price.

Franco-Nevada is pursuing a claim against the government of Panama for $5 billion through the international arbitration court. The company noted that presidential and legislative elections take place in Panama on May 5th and stated it strongly prefers and hopes for a resolution that is in the best interests of the Panamanian people and all parties involved.

Given that Cobre Panama employed 40,000 people and accounted for 5% of Panama's GDP, it seems likely a resolution will be found that ensures the 1.5% of world copper supply it produced will be brought back on stream fairly soon.

The Cobre Panama royalty and investment accounted for 22% of Franco-Nevada's NAV. But ironically, the shutdown demonstrated the strength of the company's diversified business model. Franco-Nevada expects GEOs

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Gold—continued from page 5…

This underperformance has left gold mining stocks selling at the cheapest valuation relative to the price of the metal itself in at least 20 years. This is all the more remarkable as gold miners are operationally leveraged to the price of gold, as each dollar increase in the price falls straight through to the bottom line, boosting the profits exponentially. In previous gold bull markets such as the 1970s and the 2000s, gold stocks have gone up by at least two to three times the price of the metal. Today's underperformance is very unusual and presents a marvelous buying opportunity for investors who want to have some precious metal exposure.

Let's look at the reports from our gold stock recommendations and see whether the underperformance is justified, starting with the biggest Canadian gold miner and second largest in North America by market capitalization, Agnico Eagle.

FNV—continued from page 7…

of 480-540,000 in 2024, compared to 498,447 in 2023 despite losing Cobre Panama. Precious metal GEOs are expected to increase from 360-400,000 in 2024 to 385-425,000 GEOs in 2028, as new mines like Greenstone, Salares Norte, and Tocatzinhino come on stream.

Dividend: Franco-Nevada increased its quarterly dividend by 5.9% to US$0.36 a share, its seventeenth consecutive increase. The yield is 1.2%.

Action now: Franco-Nevada is selling well below its all-time high, reached a year ago. With gold having recently touched an all-time high, GEO set to grow as new mines come on stream, and the possibility of a resolution of the Cobre Panama situation, the outlook is encouraging. Buy now.

AEM—continued from page 6…

On Friday, the company reported first quarter revenue and adjusted EPS that were ahead of consensus. The all-in sustainable cost of $1,190 per ounce was about $40 per ounce below expectations. The company reaffirmed its full year gold production, capital expenditure, and cash cost per ounce guidance.

Dividend: Agnico pays a quarterly dividend of US$0.40, equivalent to a yield of 2.4%.

Action now: Agnico remains a Buy for its growth in gold output, excellent cost controls, and its strategic position as the largest Canadian gold miner, with all its mines in politically stable countries.

Pan American Silver TSX, NYSE: PAAS

BUY

Originally recommended on June 17/19 (#21923) at C$15.58, US$11.66. Closed Friday at C$25.98, US$19.02.

Background: Pan American Silver is the second largest producing silver miner in North America and the second largest by market capitalization ($9.1 billion). It operates silver and gold mines in mining friendly jurisdictions such as Mexico, Peru, Canada, Argentina, Chile, and Brazil.

Its 2018 acquisition of Tahoe Resources gave it gold production of 500,000 oz. p.a. as well as the Escobal silver mine in Guatemala. The latter is at present shut down but produced as much silver as all of Pan American's mines in its last year of operation in 2018.

Its acquisition of Yamana Gold's four mines in South America in March 2023 almost doubled its gold production to 882,990 oz. in the year to Dec. 31, while increasing its silver production 50% to 20.4 million oz. AISC for its gold was $1,371 per oz. while AISC for silver was $18.17.

Performance: Pan American's share price was affected by the 157 million new shares issued to fund the Yamana deal. That increased its share count by 75%. The share price is well below the all-time high of $38.50, reached after the Russian invasion of Ukraine in February 2022. But the price is up 20% from the previous review in November.

Recent developments: The transformative Yamana deal means that Pan American now has 900,000 oz. p.a. gold output to complement its 20 million oz. silver production. The company raised $549 million from the disposal of its interests in the MARA copper and the Morococha and Agua de La Falda silver mines. Pan American estimates it will save $90 million on care and maintenance costs in addition to the $60 million synergies from the Yamana deal.

Revenues in 2023 were $2.3 billion, up 50% from $1.5 billion. The company recorded a net loss of $105 million (-$0.32 per share) but recorded adjusted earnings of $39.3 million (+$0.12) and generated $450 million in free cash flow. Capital expenditures totaled $420 million.

The new La Colorada Skarn silver zinc project in Mexico is expected to start production this year and generate an average annual output of 17.2 million oz. of silver, 427,000 tonnes of zinc, and 218,000 tonnes of lead in the first ten years of production.

Dividend: Pan American pays a quarterly dividend of US$0.10 per share, equivalent to a yield of 2.1%. As well, it occasionally pays special dividends linked to the cash on its balance sheet.

Action now: Pan American has made a transformative acquisition in Yamana's South American assets, has a major new silver and zinc expansion underway at La Colorada, and has the optionality of the reopening of Escobal in Guatemala. It remains a Buy.

Equinox Gold TSX, NYSE: EQX

BUY

Originally recommended on March 14/22 (#22210) at C$10.08, US$7.92. Closed Friday at C$7.56, US$5.53.

Background: Equinox Gold, in which mining entrepreneur Ross Beatty owns 8%, describes itself as a growth focused gold producer, operating entirely in the Americas. At present, it has two mines in the US, one in Mexico, and four in Brazil.

In 2023 Equinox produced 564,468 oz. of gold at an average AISC of $1,612. (The company reports in US dollars.)

Its major project is a 60% interest in the Greenstone mine in Geraldton, Ontario with 5.5 million oz. of reserves. It is due to start commercial production in the third quarter of 2024 and expects to produce 400,000 oz. annually for the first five years.

Performance: Equinox, like other miners with major projects under construction during a period of rising interest rates, saw its share price hit in 2022-23. It fell from over $10 to $5.36 but has subsequently recovered somewhat as Greenstone has neared completion. The shares are up 16% since the last review in November.

Recent developments: Equinox has provided guidance of gold production this year of 660-750,000 oz. at an AISC of $1,630-1,740 per oz. Capital expenditure is expected to be $424 million, of which $95 million is to advance Greenstone to commercial production. After 2.5 years of construction at Greenstone, 1.7 million tonnes of ore have been stockpiled, with the first ore introduced into the grinding circuit on April 6 and the first gold pour expected in May.

On April 24th, Equinox announced it was buying the 40% of the Greenstone mine it didn't own from partner Orion Mine Finance. The cost is $995 million, funded by $745 million in debt and the sale of 42 million shares to raise $250 million. That drove the price down 11%. The deal will increase annual production by 160,000 oz.

Ross Beatty said: "When we acquired our 60% interest in Greenstone in 2021 our aim was to ultimately own the whole mine. It delivers our shareholders full exposure to a mine of outstanding scale and quality."

Dividend: Equinox does not pay a dividend, concentrating on expanding its production to reach its target of 1 million oz. annually in the next few years.

Action now: Equinox is forecasting gold production to increase by up to 40% this year, before Greenstone comes into full annual production of 400,000 oz. Buy now for its strong growth profile in politically stable jurisdictions and the potential for a gold major to make an acquisition approach to grow their own production.

GORDON PAPE'S UPDATES

Recommendations are colour-coded:
Green indicates Buy
Yellow indicates Hold
Red indicates Sell

ARK Innovation ETF NYSE: ARKK

SELL

Originally recommended on Feb. 22/21 (#22108) at $151.73. Closed Friday at $44.07. (All figures in US dollars.)

Background: This is a disruptive technology ETF under the direction of high-profile manager Catherine Wood.

Performance: About the best we can say is that the unit price is up from a year ago at this time. But it is still down 71% from our original recommendation and I don't see it getting back to that level any time in the near or even medium future.

Key metrics: The fund was launched on Oct. 31, 2014. The Wall Street Journal reported last week that the assets under management in the funds Ms. Wood oversees have fallen from $59 billion in early 2021 to $11.1 billion now. The expense ratio is a hefty 0.75%.

Portfolio: Ms. Wood makes big bets on her stocks. Tesla continues to be the number one holding, at 9.51% of the assets. Unfortunately, the stock is down over 40% this year. Ms. Wood is still a believer, however; she sees the stock at $2,000 in five years.

She's done much better with Coinbase Global (9.37% of assets), which is up 50% year-to-date. But there are too many underperformers on her list; the fund is showing an overall year-to-date loss of about 13%.

Many investors are even more concerned about what she doesn't hold and what it says about her judgement. For example, the fund had a large position in chip maker Nvidia, but Ms. Wood sold it just before the stock went viral.

Outlook: This fund is only for gamblers at this stage. Some of the stocks may hit it big and maybe Tesla will reach $2,000. But I think the odds of making money are better elsewhere.

Action now: Sell.

Questions?

We have answers!

Send your questions to gordonpape@hotmail.com

CI Canadian REIT ETF TSX: RIT

Originally recommended on Feb. 18/19 (#21907) at $17.30. Closed Friday at $15.16.

HOLD

Background: This is an actively managed ETF with a mandate to seek long-term total returns consisting of regular income and capital appreciation from a portfolio comprised primarily of Canadian real estate investment trusts, real estate operating corporations and entities involved in real estate related services. Up to 30% of the fund's assets may be invested in foreign securities.

Performance: It's been a rough period for REITs, which are highly sensitive to interest rate movements. The fund hit a 52-week low of $13.66 in October but has recovered somewhat since.

Key metrics: The fund was launched in 2004 and has assets under management of $468 million. The MER is 0.87%. That's high for an ETF but remember that this one is actively managed.

Portfolio: Almost 90% is invested in Canadian securities with a little over 10% in the US. The top holding is RioCan REIT at 5.5% of total assets.

Distributions: Monthly distributions are $0.0675 per unit ($0.81 per year), for a yield of 5.3%.

Risks: Interest rates. If they stay high, this ETF will continue to underperform.

Outlook: Last week's inflation report increased optimism that the Bank of Canada may start to cut interest rates at its June meeting. That would be positive news for the REIT sector. But with the inflation situation in the US less encouraging, nothing should be taken for granted.

Action now: Hold.

YOUR QUESTIONS

US dollar bank ETFs

Q – I have a good portion of my portfolio in USD. I would like to invest in an ETF that is focused on Canadian banks/ financials that is in USD. I do not want to convert USD to Canadian dollars currently. Are there any ETFs that you would recommend? – Frank S.

A – Take a look at the BMO Canadian Banks Covered Call Canadian Banks ETF (US dollar units). The trading symbol is ZWB.U on the TSX. This ETF holds an equal-weighted portfolio of the Big Six Canadian banks, and the mangers write covered call options to boost income. The performance history isn't impressive, but keep in mind the US dollar units were only launched in January 2022. That was hardly an auspicious time, with rising interest rates and recession fears battering the banking sector. As a result, the units show an average annual compound rate of return of -4.33% since inception (to March 28). However, the one-year gain to that date was an acceptable 10.39%. The Canadian dollar version of this fund (TSX: ZWB) has been around since 2011 and shows an average annual gain since inception of +8.03%. – *G.P.*