JaguarAnalytics

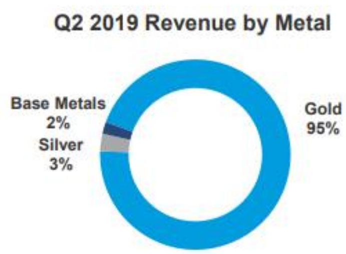
SPECIALTY EQUITY RESEARCH

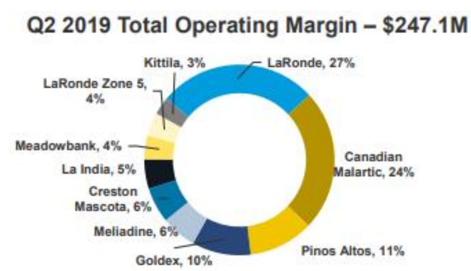
WEEKEND RESEARCH W/E August 25th, 2019

Overview: Agnico Eagle Mines (AEM) and Kirby Corp. (KEX)

Agnico Eagle Mines (AEM)

Agnico-Eagle Mines is a Canadian-based international gold producer with mining operations in Northwestern Quebec, Northern Mexico, Northern Finland and Nunavut and exploration activities in Canada, Europe, Latin America.





In late-July, the company would report its Q2 operational and financial results, with EPS coming in at $0.10 vs $0.04 estimate and ***Commercial Production coming in at 412kozs including pre-commercial production at Meliadine and Amaruq (380kozs excluding pre-commercial production), which was above the 375kozs consensus***. This beat was driven by better production at Meadowbank, LaRonde Zone 5, and Kittila.

On the call, attention first turned to its Meliadine mine, located in Canada's Nunavut Territory, as it achieved commercial production ahead of schedule. It's produced pre-commercial production ounces of 47,000 oz prior to May 14. The total cost of Meliadine were $830M. ***"So that's a project that was not only ahead of schedule, but also below the forecast of $900M in capital. So, we're continuing to ramp up Meliadine and our production guidance for 2019 is unchanged at approximately 230,000 oz including the pre-commercial production ounces."***


Switching over to Amaruq, also located in the Nunavut Territory, management indicated it was ***on track for commercial production in Q3***. However, they noted it has been a bit of a slower ramp-up from a mining perspective than they expected due to a quicker thaw and some more rain than they anticipated. So, they had to expand dewatering activities and they had a bit longer caribou migration period than expected. In a post-earnings note, Credit Suisse noted that ***mining rates at Amaruq are expected to ramp up in the 2H and reach 9-10ktpd by year-end, while hauled ore to the mill is also expected to increase through H2/19 with additional trucks***.

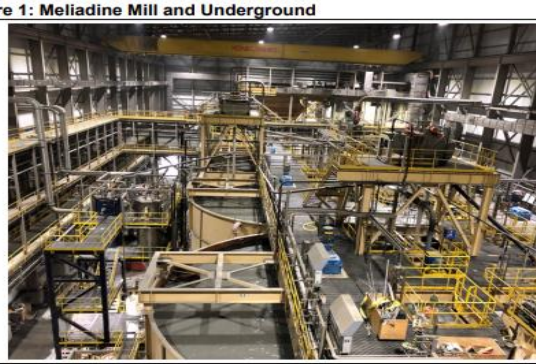
Visit to Nunavut

Last Monday and Tuesday, analysts had the opportunity to visit the company's Meliadine mine and Amaruq development project in Nunavut Territory. Some takeaways included:

GMP Securities – Analyst Steven Butler first ***commented on Meliadine saying the mill has been performing very well and in August has been operating above nameplate capacity (3,750 tpd in phase 1).*** The early mining at Meliadine has experienced lower dilution, increased tonnage and slightly better grade than the existing block model. Development is advancing well with activity on four horizons and 90% of 2019 planned stopes are already drill delineated (75% thru Feb. 2021 plan). Meanwhile, Amaruq is ramping up on the mining front and has seven drills active on delineation and exploration drilling at site.

Credit Suisse – Analyst Fahad Tariq ***commented on Amaruq saying development appears to be on track, with the main garage opened in early July, fuel tank completed earlier this month, and parts of the camp (which is mostly complete; ~300 people on site) and warehouse to be completed in Q4***.

Figure 1: Meliadine Mill and Underground

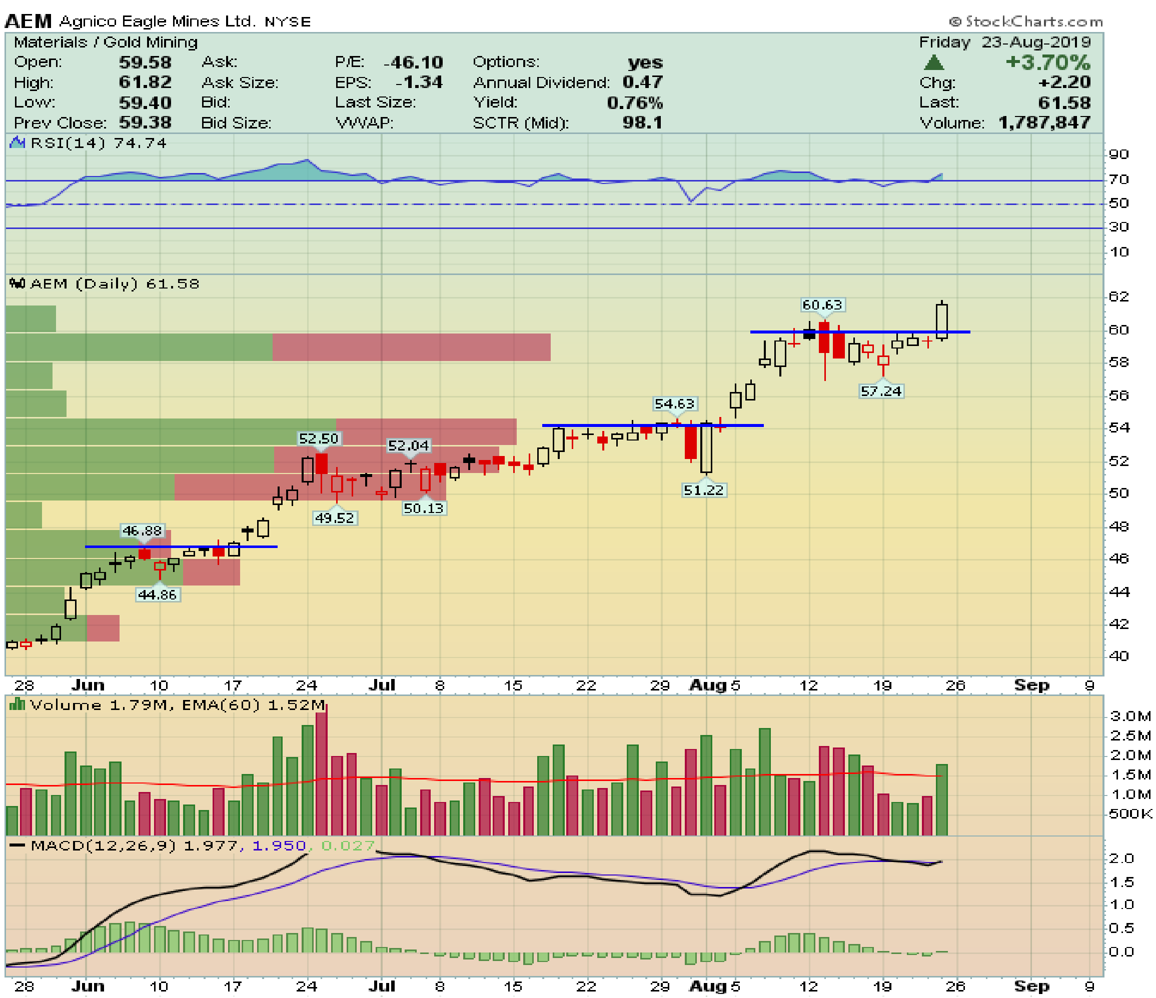


Source: Credit Suisse

JaguarScan

Currently, JaguarScan is running at an 84% bullish bias with one major bull still sitting in the January 43 Calls. Below is a breakdown of the biggest trades that remain in open interest:

-On 2/12, there was a buyer of 4,400 January 43 Calls for $4.55, a $2M bullish bet.
-On 3/22, there was a buyer of 300 January (2021) 47 Calls for $6.05, a $181,500 bullish bet.
-On 8/14, there was a buyer of 124 January 60 Calls for $5.15, a $63,860 bullish bet.
-On 8/19, there was a buyer of 200 January 55 Calls for $6.70, a $134,000 bullish bet.



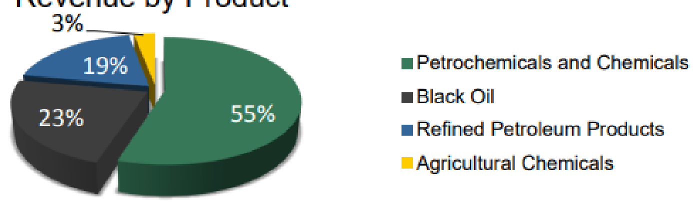
Kirby Corp. (KEX)

Kirby Corporation operates through a **Marine Transportation** segment ***(50% of revenues)***, providing tank barge transportation of petrochemicals and chemicals, black oil products, refined petroleum products, and agricultural chemicals through the US Inland Waterway System. Meanwhile, its **Distribution and Services** segment ***(50% of revenues)*** manufactures and distributes products and services to industrial customers ***(focused on oil and gas)***, and overhauls and repairs diesel engines for marine, power and railroad customers.

Marine Transportation Demand Drivers

Inland & Offshore Drivers

Revenue by Product[1]



Allison Transmission	mtu	Detroit	Deutz	Isuzu	Thermo King	Volvo Penta	Electro-Motive	Alfa Laval
On-Hwy O&G	O&G PowerGen Marine(C) Marine(L) Mining Industrial	On-Hwy	O&G Industrial	Industrial	On-Hwy refer and climate control	On-Hwy Industrial Marine(L)	Marine(C) Nuclear	Marine(C)
Distributor	Distributor	Distributor	Distributor	Distributor	Distributor	Distributor	Distributor	Distributor

Keep an eye on this stock going forward. It's been quite a while since we looked at this name, the first time being a bullish write-up way back in December 2017. This time around, and as you will see on the chart, I believe shares will continue its current downtrend. Kirby is coming off a very disappointing Q2 earnings that saw them lower their FY earnings guidance, which resulted in shares falling close to 7%. Here was the breakdown:

-EPS of $0.79 vs $0.79 estimate – In-Line
-Revenue of $771M vs $770.8M estimate – Beat
-Marine Transportation Revenue of $404.3M vs $405.6M estimate – Miss
-Distribution & Services Revenue of $366.8M vs $370M estimate – Miss
-FY EPS Guidance of $2.80 - $3.20 vs $3.41 estimate – Miss

"Although, we believe we have strong momentum in marine transportation, reduced expectations for the second half in our oil and gas distribution and services businesses and the extensive delay days in inland marine throughout 2019 will impact our full year."

First, taking a closer look at the company's Distribution and Services segment, the previous guidance range provided by management incorporated some downside in the second half of 2019, but according to new commentary, ***"The pace of new orders, maintenance activities and parts sales have slowed considerably."*** While discussions for new and remanufactured pressure pumping equipment orders continue, it is clear from management that many of their customers are intensely focused on free cash flow and returns, and as such, ***"are operating at very reduced levels of spending."***

Switching over to its Marine Transportation segment, despite improved performance in the business YTD, the financial impact from poor weather, high water conditions and closures of key waterways in 2019 has been significant. CEO David Grzebinski would comment, ***"This year, we have experienced extensive periods of ice and fog, and we are currently in the midst of the most prolonged period of flooding and high-water conditions on the Mississippi River and her tributaries in modern history. Further, the lock maintenance and infrastructure projects throughout our network have significantly slowed operations and the Houston Ship Channel, which is important to our operations, has experienced extended periods of delays and closures."***

Year-to-date through June, ***the company has incurred more than 7,900 delay days, which represents an 86% increase compared to the first six months of 2018***. They estimate that these conditions and incremental delays have cost inland marine about $0.10 per share thus far in 2019. And although the high-water conditions are improving, ***Kirby expects the high water will continue into mid-August***. ***"So, the guidance reduction is primarily due to what we are experiencing in the oil and gas markets, but there is also a component related to the marine operating environment."*** Stifel analyst Benjamin Nolan would agree with this sentiment, adding that a spillover would happen into Q3 as a result of the recent hurricane.

With regards to the oil industry and its effect on Kirby earnings, BAML would point out that one of their oil analysts, Chase Mulvehill, who covers **Patterson-UTI Energy** **(PTEN)**, said that their Q3 guidance suggests a 10% decline in U.S. rig count but also that U.S. onshore activity has yet to bottom. As a result of this, ***BAML is targeting D&S revenues for Kirby to decline near double-digits and not inflect positive growth until the middle of 2020***.

One final point that analysts made on the company's D&S segment is that more than 60% of the segment's fortunes are tied to the highly cyclical oil and gas drilling and completion activity, which is in turn leveraged to swings in commodity prices. Thus, even if portions of D&S' operations do have a competitive edge, a material pullback among energy customers would certainly wipe out economic profit as segment revenue dries up. ***This occurred in 2016 in Kirby's United unit, which provides oilfield-equipment services very similar to S&S, though on a much smaller scale. Kirby's D&S segment revenue fell roughly 40% in both 2015 and 2016, with losses posted in several quarters.*** Third, finished-product and parts sales, which make up a large portion of distribution-related revenue, involve relatively interchangeable equipment. So even though Kirby is a well-run, high-quality provider with leading scale and deep SKU availability, many of its activities are replicable and have razor-thin margins.

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