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Analysts' Ideas of the Week – Anaconda Mining – Q3 Numbers Not As Bad As They Look

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Anaconda Mining – Q3 Numbers Not As Bad As They Look

Last week, Anaconda Mining Inc. (TSX: ANX) announced their Q3-2014 (quarter ended February 28, 2014) results. Revenues dropped by 25% YOY to $3.87 million. The company reported a net loss of $0.28 million (EPS: -$0.00) in Q3, versus net income of $0.60 million (EPS: $0.00) in the comparable period in the previous year. For the nine month period ended February 28, 2014, revenues dropped by 14% YOY, to $14.90 million.

On a quick glance, Q3 results might indicate that the company had a poor quarter. However, if one looks at the actual operating performance, Q3 was not as bad, operationally, as the income statement shows.

The following table shows gold sales figures in Q3, and for the nine month period in FY2013, and FY2014.

	For the three months ended		For the nine months ended	
OPERATING STATISTICS:	February 28 2014	February 28 2013	February 28 2014	February 28 2013
Mill				
Operating days	76	77	240	237
Availability	84%	85%	88%	86%
Dry tonnes processed	63,123	63,822	223,127	202,979
Tonnes per 24-hour period	834	830	926	858
Grade (grams per tonne)	1.79	2.17	1.83	1.93
Overall mill recovery	83%	83%	83%	83%
Gold sales volume (troy oz.)	2,832	3,101	10,780	10,512

Source: Anaconda Mining

Gold sales dropped by only 9% YOY to 2,832 oz in Q3. For the nine month period, gold sales were actually up 3% YOY to 10,780 oz. The main reason for the major drop in revenues in Q3, and the nine month period, was the drop in gold prices, and not because of poor production results. The average sale price in Q3-2014 was $1,365 per ounce versus $1,656 in the comparable period in the previous year. For the nine month period, the average sale price was $1,382 per ounce versus $1,655 per ounce in the comparable period in the previous year.

ANX' balance sheet remains strong with $1.96 million in cash, $1.77 million in working capital, and very little long-term debt at the end of February 2014. The company's new source of revenues (a 0.8% royalty on iron ore production from a property that the company sold earlier) is a good supplement to cash flows from the Pine Cove mine.

We do not have a rating or fair value estimate on the company as we do not cover the company at this time.

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Sandvine Reports Strong Earnings

At the end of March, we looked at Sandvine Inc. (TSX: SVC), and recommended investors follow the company. At that time, the stock price had pulled back to the low $3.00 from the mid-$3's. We liked the strong market position and growth of the company. The company recently released their first quarter 2014 results, and reported strong earnings improvements with net income increasing by over 4x's. After the financials released on April 10, 2014, the stock responded to the impressive financials, increasing from the $3.20's to as high as $3.72, and is currently trading at $3.70. The following highlights some of the key results from the financials, and why we feel Sandvine is well positioned for continued growth.

In Q1-2014, revenue was up 26% over Q1-2013, to $31.5 million. Sandvine noted that they recognized revenue from 23 new customers, and had large orders from their major North American customers. Despite the large increase in sales, expenses increased by only 5%. In 2013, the company showed an improvement in expense reductions over 2012, and we feel that this is continuing in 2014. Net income improved substantially over the prior year, with Q1-2014 net income of $7.5 million over the previous year same period of $1.7 million. The rise in net income is the result of increased sales and improvement in gross margin. Margins rose to 78.3% for the quarter over 71.8% for Q1-2013.

We feel that Sandvine offers good exposure to the wireless and mobile market, as shown by the increase in wireless and mobile revenue. 61.6% of revenues were from wireless and mobile customer access technology compared to 32.4% in Q1-2013. In the MD&A, management notes they feel that future growth will come from wireless growth in emerging markets. They feel that they are well positioned in these markets for future growth. In Q1-2014, 47.1% of revenues were from North America, 22.5% from Europe and the Middle East, 12.6% from Asia, and 17.8% from the Caribbean and Latin America.

We like that the company has a strong cash position and no debt. Sandvine currently trades at a forward EPS of 17.45x compared to the networking industry average of 18.2x. Compared to competitors, Sandvine also trades at lower multiples. We feel that Sandvine is poised for continued earnings growth and expect a strong 2014 financial performance.

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