Three speculative ideas: Geiger Counter subs, Iovance and Base Resources

Today I have three adventurous, speculative investment stock-specific ideas – all three of which I am currently looking at for my own portfolio.

First off, we're back to my bullish views on nuclear power and uranium prices. I'm primarily exposed to this via shares in Yellow Cake but another more leveraged opportunity may present itself in the next few weeks. The board of listed fund **Geiger Counter** is proposing to introduce annual subscription rights enabling shareholders to subscribe for one new ordinary share for every five shares held, in an effort to grow the size of the fund.

According to the Numis report of this proposal, "*if approved, the rights will be exercisable any time during the 30 days prior to the subscription date, which will be 30 April each year, at a subscription price equal to the NAV per share on 1 May in the prior year. Consequently, if the NAV per share rises over the course of the year, then shareholders will be able to subscribe for new shares at a potentially significant discount to NAV*."

I've always quite liked subscription shares as they are long dated leveraged options on the upside. Geiger has had other subs which have expired worthless in the past – on a 2-for-1 basis, exercisable in 2018, 2019 and 2020 at a 5%, 10% and 15% premium to the 2017 NAV respectively.

My guess is that these subs will trade separately as shares and if, like me, you believe that we could see a spike in uranium prices, these could be a very leveraged way of playing that spike i.e the fund is in equity-focused stocks (the first level of leverage), mostly in the mid to small-cap space (even more leverage).

Next up we have a small-cap mining stock that sounds interesting. This idea is courtesy of Ocean Wall, a specialist in alternatives. They are big fans of the uranium theme but this idea is more focused on the specialty mining space as we make the energy transition. In particular, we are talking about Ilmenite, which Ocean Wall call the 'ugly duckling' commodity. Ilmenite is the main source of titanium dioxide which is used as a 'whitening agent' in paints, printing inks, fabrics, plastics, paper, etc. Forecasters believe demand will continue to outpace supply and, therefore, market conditions are expected to remain tight; leading to further price gains in H2 2021.

Ocean wall suggests looking at "dual-listed, **Base Resources (BSE LN).** Having hit a low of 6.75p in March 2020, the stock has recovered – currently 14.25p – but with Numis estimating that on just 1x NAV it has an implied price of 30p. (Note: there are two current analysts' recommendations – both 'Buy' with a target price of 22p.) ".

The company has two big mines, both producing pure mineral sands the biggest and most established of which is in Kenya with a newer plant in Madagascar.

"*Mineral sands contain concentrated Titanium minerals – Titanium Dioxide – (including Rutile and Ilmenite) and Zircon – known as 'heavy' minerals. Used in a huge range of everyday consumer products, the majority produced go to into pigments for paint but are also used in paper, plastics, toothpaste, sun cream and ceramics. Demand is therefore linked to global GDP*."

What seems interesting about Base is that it seems very cash generative and has already been paying out bumper dividends. " Cash reserves were announced at AUD$75m (despite paying out AUD$30m in October for 2020 dividend). Debt reduced by US$50m in 2020 and the remaining US$25m is expected to be repaid by March 2021. The Madagascar project is earlier stage but is already looking very positive and Ocean wall reckons that " Base Resources will have the 2 most profitable mineral sand operations in the world". Plus it sounds like the business takes ESG stuff very seriously.

Last but by no means least a note out this month from US equities fund manager Arbrook – who I have mentioned before in this blog – discussed a portfolio stock called **Iovance**, a specialised healthcare stock that has had a rough old year but looks primed to rebound.

Here's the Arbrook note…

“We believe Iovance has a currently unique asset on the cusp of commercialisation that has proven highly successful in fighting solid tumours in indications where there is little else available for later stage patients. Their product is in a branch of immuno-oncology called TIL therapy (tumour-infiltrating lymphocytes) and is based upon technology licensed from TIL pioneer Dr. Steven Rosenberg. We believe that due to their head-start, technology licenses and proprietary manufacturing processes, Iovance are the most commercially advanced in bringing TIL therapy to patients.
Sadly in oncology, the very nature of the disease is what makes it so hard to fight, namely cells multiplying and genetically mutating. TIL therapy is different to the existing “standard of care” of immuno-oncological treatments today because it is polyclonal. *For example, the blockbuster cancer drug Keytruda seeks to block a specific known receptor. CAR-T (chimeric antigen receptor t-cell therapy, a close cousin of TIL) aims to amplify a certain known attribute of an immune system cell. TIL therapy, however, seeks to leverage the natural diversity in the patient’s own immune system response to the ever-mutating tumour and replicate en masse a wide variety of the body’s own cancer fighting cells, hence polyclonal.*

“Iovance’s TIL product is called lifileucel and we believe it is a new and unique method of treatment. It was granted fast-track status by the FDA (Food & Drug Administration) and for cervical cancer was designated a breakthrough drug. We expect melanoma to be the first commercial indication for lifileucel either later this year or early 2021. The application for drug approval has been slowed as the FDA and Iovance have been ironing out which potency assays to use with the therapy. From our conversations with Iovance they wish to ensure all is in place before they submit and from what we interpret the FDA are simply being cautious given the novelty (and complexity – see diagram above) of this treatment. We believe the issue here is bad luck. The FDA faced a monumental task in 2020 to rapidly approve Covid vaccines and as a result everything else took a back-seat; this caused delays which have not yet been resolved. We have seen this with another stock the Fund holds – Kadmon. They recently had their drug license approval date pushed back 3 months, as we understand, to simply give the FDA more time.

“Iovance has been included in a large ETF that saw inflows in 2020 but sharp outflows in February2 and we believe the <u>ETF flows have amplified the existing volatility in the stock from the FDA capacity and pricing concerns hanging over the industry</u> [my emphasis added]*. To put this into perspective very recently another company has listed that focuses on TILs with a comparable product to lifileucel. This company is not yet through very early stage trials yet enjoys a $3bn market cap. We expect Iovance to enter commercialisation years before this other company yet today its market cap is only $4bn1. We had been trimming the stock*

at the end of the year due to the strong run-up, however, since the drop have been adding again."

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