This article is excerpted from a letter by Jim Roumell, partner and portfolio manager of Roumell Asset Management, based in Chevy Chase, Maryland.

Dundee is a public Canadian independent holding company, listed on the Toronto Stock Exchange under the symbol DCA and also trades in the US under the symbol DDEJF. Through its operating subsidiaries, Dundee is engaged in diverse business activities in the areas of investment advisory, corporate finance, energy, resources/commodities, agriculture, real estate and infrastructure. The Corporation also holds, directly and indirectly, a portfolio of investments mostly in these key areas, as well as other select investments in both publicly listed and private enterprises.

We first analyzed Dundee back in 2014. Ned Goodman, the founder, decided to step down and one of his sons, David Goodman, took the helm as CEO. Ned had an excellent track record for many years. However, in 2011, he took a view that there would be hyperinflation and the US dollar would devalue so he decided to invest heavily in commodity businesses (e.g., oil and gas, mining, etc.). Many of those investments have since been written-off or written-down. David, who already held a prominent role at Dundee since the ‘90s, worked to restructure Dundee into a mini-Brookfield Asset Management: create funds, contribute assets, and generate fee income. That strategy did not work out. He changed strategic direction to cull and derisk the investment portfolio. In January 2018, David began a medical leave of absence. His brother, Jonathan Goodman, was appointed Executive Chairman. Jonathan was also involved with Dundee since the ’90s, but left four years ago, before returning. Jonathan is currently reviewing the entire portfolio and will continue to derisk the portfolio through his lens.

In 2014, Dundee’s reported Net Asset Value (NAV) was about $29 (all figures in this section will be quoted in Canadian dollars). As of December 31, 2017, the reported NAV was $10.36. We view the valuation of Dundee as a Sum of the Parts (SOTP). Dundee has a variety of levers to pull to realize value for shareholders. In other words, it has a characteristic that RAM always looks for in its investments—multiple shots on goal. We valued a handful of investments to determine what we believe to be an extremely conservative valuation.

Of the private investments, we analyzed primarily Parq Vancouver and United Hydrocarbon. Dundee owns 41% of Parq Vancouver (Parq). Parq, which opened in 4Q17, is an entertainment destination located in downtown Vancouver featuring a state-of-the-art casino, two luxury hotels, including Vancouver’s largest hotel ballroom (for conventions), and eight restaurants and lounges. Marriott manages the flagship hotel. The company has provided EBITDA guidance of $75mm-$100mm once the facility is fully ramped up. Parq has seen month over month growth since January. Parq also has roughly $565mm in construction loans, with current interest rates of about 8% and 13%. Part of the overhang on this property will be alleviated after establishing a trend of growth that will allow Parq to refinance its debt. We are told that there are parties interested in investing in the property, which could provide Dundee with a meaningful alternative if the price is right. Applying a multiple of 10x, we arrive at a value of $126mm, a modest premium to the $111 million

Dundee invested in 2016 and 2017 to build the project. Vancouver is ranked the 13th Best City in North America by Travel Magazine.

One of the poor investments made during Ned’s tenure was the purchase of an oil field in Chad, Africa through its subsidiary United Hydrocarbon, of which it is an 83% owner. Dundee spent several hundred million dollars on this asset. As part of the derisking process, last year Dundee decided to sell its interest to Delonex, which was backed by Warburg Pincus, in return for a payment of about $45mm before any escrow or holdbacks. Dundee also received a royalty that will payout starting in several years assuming Delonex is successful, as well as a $64mm payment upon finding first oil. Summing the net payments (excluding the payment upon first oil) and the estimated value of future royalties arrives at a value of about $43mm.

We also included value for private investment Blue Goose (where we assume zero value for 2016 acquisition Tender Choice, as it is currently in receivership) of $7mm and Android Industries of $24mm (company’s book value). The total of these four private investments is about $201mm.

Dundee has public investments of about $221mm, of which half is in Dundee Precious Metals, a gold mining and smelter business. Precious Metals has one mine producing nearing $400 million in annual revenue and is 60% complete on a second surface mine (expected to be in production by year-end), with an estimated all-in cost of roughly $400/oz. The company expects to generate $200 million in EBITDA when the second mine fully ramps assuming current spot gold prices versus a current enterprise value of roughly $475 million. Again, these are investments that can be sold as Dundee derisks its portfolio.

The sum of the investments we believe can be easily quantified and valued is $422mm. Subtracting net debt of $163mm gives you an NAV of $259mm, or $4.41 per share. This compares to the company’s stated NAV of $609mm, or $10.36 per share. What’s the probability that all of the additional investments, albeit more difficult to value, are worthless? This is highly unlikely and so we are getting the rest of the portfolio for free. Our average purchase price in the quarter was approximately $2.00 per share, a 55% discount to our NAV calculation. We performed various stress tests and could not bring the NAV below our purchase price.

The Goodman family owns roughly 19% of the company’s subordinate voting shares, which are the ones that are publicly-traded, and 99% of the closely-held common shares which have super-majority voting rights. Of note, the Goodman family has never sold a share. They have much at stake, not only monetarily, but also from a family reputation and legacy point of view. At the corporate level, Dundee is undergoing a process of reducing costs. In the past, we’ve spoken with David Goodman on several occasions and recently spoke with Jonathan Goodman. With all the value destruction that has occurred over the last few years, Dundee is a “show me” story. Additionally, it appears that many investors are concerned about Dundee’s liquidity when its preferred series 5 notes come due in June 2019. What may not be fully understood is that Dundee has the option to pay cash, issue common shares with a share price floor of $2.00, or a combination of the two when these preferred shares mature. It is our belief that the management team will do everything it can to ensure that it does not need to issue dilutive shares. We believe that the value of Dundee is significantly north of today’s share price and more than discounts any “hair” the investment possesses.

Disclosure: The specific securities identified and described do not represent all of the securities purchased, sold, or recommended for advisory clients, and the reader should not assume that investments in the securities identified and discussed were or will be profitable. The top three securities purchased in the quarter are based on the largest absolute dollar purchases made in the quarter.