Auriant Mining

Q419/FY19 results

Tardan CIL at capacity

Metals & mining

In general, shortfalls in production and sales resulted in Auriant reporting a modest loss of $0.6m in Q419, relative to our prior expectation of a modest profit. Of much more importance however is the first meaningful production from the newly commissioned Tardan carbon-in-leach (CIL) plant, which produced 95kg of gold in December and 115kg in January, both of which (pro rata) exceed our expectations of 953kg of production for FY20. As a result, we have left our forecasts for the CIL plant in FY20 and beyond unchanged, while our valuation of Auriant has risen with the appreciation in its share price and depreciation of the rouble.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/18	17.4	(10.2)	(10.9)	0.0	N/A	N/A
12/19	29.8	(2.2)	(1.3)	0.0	N/A	N/A
12/20e	51.3	16.3	6.0	0.0	5.9	N/A
12/21e	43.0	12.5	5.0	0.0	8.2	N/A

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Estimated cash costs below $800/oz

Auriant reported total cash costs for the year of $884/oz. While they were not formally disclosed for Q419, we estimate that cash expenses in the quarter amounted to $701/oz of non-alluvial gold produced. Including alluvial production, we calculate that Auriant's cost of sales amounted to $720/oz of gold produced and $794/oz of gold sold. While these numbers are above our forecast of $627/oz of cash costs in FY20, they appear consistent with it, given that only 52.9% of Auriant's production was derived from the CIL plant during the quarter. In addition, the cost of production from the residual heap leach operations may reasonably be assumed to have been above average and the cost of production from the newly commissioned CIL plant to be below it.

Valuation: $0.72 (SEK6.80) per share

On the basis that management executes the Tardan CIL project and the Kara-Beldyr project according to the operational and financial parameters expected, we estimate that Auriant is capable of generating average cash flows of $49.2m, average earnings of $42.2m and average EPS of $0.210 in the nine-year period from FY25–33 (inclusive), thus allowing it to pay maximum potential dividends to shareholders in the order of 23.0c per share in the period FY26–33 (inclusive). Discounted at Edison's customary 10% discount rate, such a stream of dividends has a value of $0.72 per share (SEK6.80/share), rising to $1.28/share on the cusp of the company's first meaningful dividend in FY27. However, in the event that the gold price remains at $1,600/oz indefinitely, our valuation of Auriant rises by 54.2%, from $0.72/share to $1.13/share, in which case an investment in Auriant shares at a price of SEK3.69 on 1 January 2020 would generate an internal rate of return to investors (IRR) of 26.6% in US dollar terms over the 16 years from 2020 to 2035 (inclusive).

4 March 2020

Price	**SEK3.69**
Market cap	**SEK364m**

RUB66.0750/US$; SEK9.4464/US$

Net debt ($m) at 31 December 2019	84.1
Shares in issue (thousands)	98,649
Free float	33%
Code	AUR
Primary exchange	Nasdaq First North Premier
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	8.5	1.4	40.3
Rel (local)	13.9	0.2	26.0
52-week high/low	SEK4.05	SEK2.25	

Business description

Auriant Mining is a Swedish junior gold mining company focused on Russia. The company has two producing mines (Tardan in Tyva and Solcocon in Zabaikalsky), one advanced exploration property (Kara-Beldyr in Tyva) and one early stage exploration property (Uzhunzhul in Khakassia).

Next events

Annual report	28 April 2020
AGM	19 May 2020
Q120 results	29 May 2020
Q220 results	31 August 2020

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Edison profile page

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Q419/FY19 results

Auriant's Q419/FY19 financial results were reported within the context of known production (see Exhibit 1). Although output during the quarter was below expectations, some of the shortfall could be attributed to the Russian winter, which has always had the potential to have a material (and broadly unpredictable) effect on Q4 production. Of more significance, however, was the first meaningful production from the newly commissioned CIL plant at Tardan. After the requisite prior test-work, the plant began loading low-grade ore on 11 November 2019 and high-grade ore on 18 November. At that point, Auriant expected that the ramp-up phase of the plant would take 2.5 months, ie until the end of January. Although production in Q419 was lower than expected, the plant reached its stable projected processing capacity of 50t per working hour by the end of December, with the expectation that it would process 31kt in January and produce 115kg of gold (implying a plant feed grade of at least 3.7g/t and probably 4.0g/t). In the event, the plant processed 34kt in January and achieved its production target of 115kg of gold (implying a plant feed grade of at least 3.4g/t and probably 3.7g/t). Gold sales in January were 151kg however, including gold (presumably 36kg) that was produced but not sold in December – among other things, pointing to a strong Q120, albeit at the expense of Q419. The average realised gold price in January was $1,558/oz (a 5.2% premium over the estimated average price achieved in Q419 of $1,481/oz). We summarise Auriant's FY19 and Q419 results in the exhibit below:

Exhibit 1: Auriant results, Q119–Q419e, by quarter ($000s*)

	Q119	Q219	Q319	Q419e	Q419	FY19e	FY19	FY19/FY19e (%)
Production								
Tardan heap leach (kg)	86.2	141.1	202.3	120.4	95.4	550.0	525.0	-4.5
Tardan CIL (kg)	0.0	0.0	0.0	150.0	110.0	150.0	110.0	-26.7
Tardan total (kg)	86.2	141.1	202.3	270.4	205.4	700.0	635.0	-9.3
Solcocon production (kg)	0.0	27.4	24.1	12.7	2.5	64.0	54.0	-15.6
Gold price ($/oz)	1,312	1,308	1,474	1,474	**1,481	1,412	1,416	0.3
Income statement								
Revenue	4,142	6,638	10,007	12,399	8,975	33,186	29,762	-10.3
Cost of sales	3,243	5,221	6,316	7,074	4,830	21,854	19,610	-10.3
Gross profit	899	1,417	3,691	5,325	4,145	11,332	10,152	-10.4
Depreciation	(1,233)	(984)	(1,142)	(1,351)	(1,652)	(4,710)	(5,011)	6.4
General & administration	(630)	(527)	(547)	(668)	(480)	(2,372)	(2,184)	-7.9
Other operating income	20	190	24	0	7	234	241	3.0
Other operating expenses	(61)	(45)	(140)	(116)	(755)	(362)	(1,001)	176.5
Impairments etc								
EBIT	(1,005)	51	1,886	3,191	1,265	4,123	2,197	-46.7
Interest income	0	0	0	0	0	0	0	N/A
Interest expense	(1,004)	(1,120)	(1,066)	(998)	(1,200)		(4,390)	N/A
Net interest	(1,004)	(1,120)	(1,066)	(998)	(1,200)	(4,188)	(4,390)	4.8
Forex gain/(loss)	262	209	448	0	(240)	919	679	-26.1
Profit before tax	(1,747)	(860)	1,268	2,193	(175)	854	(1,514)	-277.3
Tax	(102)	(608)	(13)	(161)	445	(884)	(278)	-68.6
Marginal tax rate	5.8	70.7	(1.0)	(7.3)	(254.3)	(103.5)	18.4	N/A
Profit after tax	(1,645)	(252)	1,281	2,354	(620)	1,738	(1,236)	-171.1
Average no. shares (000s)	98,649	98,649	98,649	98,649	98,649	98,649	98,649	0.0
Derivatives (000s)	560	0.000	0.000	692.500	0.000	693	0	-100.0
Fully diluted no. shares (000s)	99,209	98,649	98,649	98,649	98,649	98,649	98,649	-0.7
EPS ($/share)	(0.017)	(0.003)	0.013	0.024	(0.006)	0.018	(0.013)	-172.2
Diluted EPS ($/share)	(0.017)	(0.003)	0.013	0.024	(0.006)	0.017	(0.013)	-176.5

Source: Edison Investment Research, Auriant Mining. Note: *Unless otherwise indicated. **Estimate.

In general, the shortfalls in production and sales resulted in a negative variance in revenue of $3.4m in Q419 relative to our prior expectations, although this was offset to some extent by a

$2.2m negative variance in costs. Coupled with increases in 'other' operating expenses (related to waste disposal fees accrued for previous periods) and the tax charge (which is always apt to be variable on a quarterly basis), this resulted in Auriant's reporting a modest net loss for the period of $0.6m relative to our prior expectation of a modest profit of $2.4m.

Guidance

On an annualised basis, 115kg of gold produced in one month in January equates to yearly production of 1,380kg. This compares with our forecast for production in FY20 from the CIL plant of 953kg from an average 26.7kt processed per month at an average grade of 3.24g/t. Since February however, Auriant has been feeding blended high- and low-grade ore to the plant – as opposed to just high-grade ore only in January – in order to ensure a steady transition to year-round average grades. Auriant's official guidance for 2020 is for production of 900–940kg gold, which compares with our 953kg from the Tardan CIL plant plus an estimated 62.5kg from Solcocon.

Ore to be fed to the new CIL plant will be mined from the Pravoberezhniy deposit, which was in operation throughout 2019. Management anticipates annual throughput of the CIL plant to amount to 350–380kt (cf our forecast of 320kt), which implies an average recovered grade in the range 2.37–2.69g/t and a likely plant feed grade therefore in the range 2.58–2.92g/t (cf our forecasts of 2.98g/t and 3.24g/t, respectively).

Operational considerations

Heap leach operations were discontinued at the end of December 2019 as expected with the result that 100% of Tardan production is now being derived from the newly commissioned CIL plant.

Costs

Auriant reported total cash costs for the year of $884/oz. While they were not formally disclosed for Q419, we estimate that cash expenses in the quarter amounted to $701/oz of non-alluvial gold produced. Including alluvial production, we calculate that Auriant's cost of sales amounted to $720/oz of gold produced and $794/oz of gold sold. While these numbers are slightly above our forecast of $627/oz of cash costs in FY20, they appear consistent with it, given that only 52.9% of Auriant's production during the quarter was derived from the CIL plant and the fact that it may be reasonably assumed that the cost of production from the residual heap leach operations was above average and the cost of production from the newly commissioned CIL plant was below it. Moreover, as a result of test-work conducted during the ramp-up phase, Auriant has upgraded the leaching tanks at Tardan in order to improve ore oxidation to ensure stable processing results. In addition, in December 2019, the company agreed a new energy deal to increase the power allocation to the Tardan CIL plant by 25% from 2.0MW to 2.5MW using a newly built 35kV power line. This will allow Auriant to minimise its use of diesel generators on site or, possibly, to cease their use entirely, with obvious benefits for the operation's cost base.

Conclusion

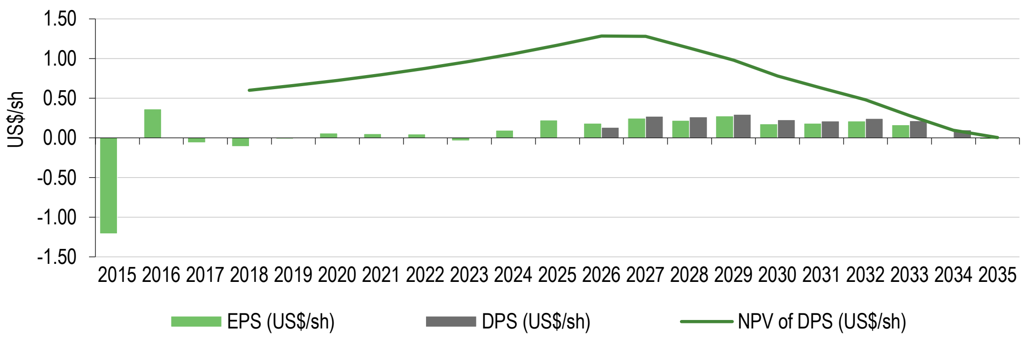
While financial results for Q419 and FY19 were modestly below our expectations, more recent output and (implied) cost numbers have given us confidence to broadly maintain our forecasts for FY20, with the single exception that we do not now expect any residual contribution from the heap leach pads.

Valuation

In common with our standard practice, our valuation of Auriant has been performed via the discounting of maximum potential future dividends at a discount rate of 10%, assuming all excess cash generated is distributed to shareholders only after all debt has been repaid.

On the basis that management executes the Tardan CIL project and the Kara-Beldyr project according to the operational and financial parameters anticipated, we estimate that Auriant is capable of generating average cash flows of $49.2m (cf $48.5m previously), average earnings of $42.2m (cf $41.5m previously) and average EPS of 21.0c (cf 18.7c) in the nine-year period from FY25–33 (inclusive), thus allowing it to pay maximum potential dividends to shareholders in the order of 23.0c per share (cf 21.7c) in the period FY26–33 (inclusive). Discounted at our customary 10% discount rate, such a stream of dividends has a value of $0.72 per share (cf $0.68/share previously), as shown in the exhibit below, rising to $1.28/share (cf $1.20/share previously) on the cusp of the company's first meaningful dividend in FY27:

Exhibit 2: Auriant forecast EPS and maximum potential DPS, FY15–35e



Source: Edison Investment Research

Our 'base case' valuation of $0.72/share compares with one of $0.68 in January 2020 (see our note Tardan CIL de-risks Kara-Beldyr). The main underlying factors occasioning the increase in value include 1) a higher share price (SEK3.69 vs SEK3.15), implying less future dilution associated with an assumed $40m equity raising in the near future (see 'Sensitivities' section, below); and 2) a slight 3.2% decline in the value of the Russian rouble relative to the US dollar, from RUB64.0188/US$ to RUB66.0750/US$. Note that our valuation specifically excludes any value attributable to Solcocon on account of the variable nature of alluvial mining operations. However, it is not impossible that activities at Solcocon could be reconfigured in the future to incorporate hard rock mining and processing via a carbon-in-pulp (CIP) plant.

Sensitivities

In qualitative terms, the principal risks to which Auriant is immediately exposed include geographical/sovereign risk (including regulatory risk), geological risk, metallurgical risk, engineering risk, funding risk, financing risk and management risk. In general terms, these may be summarised as execution risk ie management's ability to bring the Kara-Beldyr project to account within its geographical jurisdiction at the required technical and economic parameters. Once in production however, these risks will be perceived to have reduced and other risks, such as commercial, commodity price, foreign exchange and global economic risks will become relatively more pronounced.

One specific risk – funding – bears further, immediate consideration from an empirical perspective. In this particular case, our valuation sensitivity to the price at which an assumed $40.0m equity funding is conducted is shown in the exhibit below:

Exhibit 3: Valuation sensitivity to equity funding price

Premium/(discount) to current share price (%)	-32.2	-18.7	-5.1	u/c	+8.4	+22.0	+35.5
Equity fundraising price (SEK)	**2.50**	**3.00**	**3.50**	**3.69**	**4.00**	**4.50**	**5.00**
Valuation ($/share)	0.58	0.65	0.71	0.72	0.75	0.80	0.84
Valuation (SEK/share)*	5.48	6.14	6.71	6.80	7.08	7.56	7.93
Change cf 'base case' (%)	-19.4	-9.7	-1.4	u/c	+4.2	+11.1	+16.7

Source: Edison Investment Research. Note: *Converted at the prevailing forex rate of SEK9.4464/US$.

Readers should note that (assuming conversion before FY26) the above table effectively also provides an analysis of Auriant being funded by way of a convertible bond (cf conventional equity) with a conversion price at one of those shown (typically at a premium to the existing share price cf equity at a discount) and a coupon close to the company's cost of debt. In the event of such a convertible remaining unconverted, however, and therefore behaving like conventional debt, our valuation instead rises to $1.11/share (albeit with a correspondingly higher maximum debt level of $140.2m cf $89.8m in the 'base case' scenario, see 'Financials' section below).

Gold price

Edison's long-term gold price forecasts were set out in our report Portents of economic weakness: Gold – doves in the ascendant, published on 14 August 2019, and are summarised in the table below:

Exhibit 4: Updated Edison gold price forecasts*

Calendar year	CY20	CY21	CY22	CY23 & beyond
Real gold price forecast ($/oz)	1,572	1,395	1,387	1,350

Source: Edison Investment Research. Note: *See *Portents of economic weakness: Gold – doves in the ascendant*, published on 14 August 2019.

Trading above $1,600/oz currently under the influence of both a re-expansion of the US total monetary base plus the perceived threat from the coronavirus, the price of gold is self-evidently above our forecast real prices for all of the years from CY20 onwards. In the event that the gold price were to remain at $1,600/oz, our valuation of Auriant rises by 54.2%, from $0.72/share to $1.13/share, in which case an investment in Auriant shares at a price of SEK3.69 on 1 January 2020 would generate an IRR to investors of 26.6% in US dollar terms over the 16 years to 2035 (inclusive), ie the life of operations.

Financials

As at end-December 2019, Auriant had net debt of $82.7m on its balance sheet, excluding a 'lease payable' item of $1.4m. This compares with net debt on its balance sheet of $83.4m as at end-September 2019. Assuming the company raises an additional SEK377.9m ($40.0m) in cash via equity funding in the near future, we expect its net debt will evolve as follows until FY25, before being eliminated in FY26:

Exhibit 5: Auriant forecast net debt evolution, FY18–25e ($m)

End-year	FY18	FY19	FY20e	FY21e	FY22e	FY23e	FY24e	FY25e
Net debt (current estimates)	75.9	82.7	47.9	54.7	84.1	89.8	73.5	26.5

Source: Auriant Mining accounts, Edison Investment Research

Note that our estimate of Auriant's maximum net debt requirement of $89.8m at end-FY23 equates to a leverage ratio (net debt/(net debt+equity)) of 70.8% (cf 61.3% previously).

Exhibit 6: Financial summary

US$000s	2015	2016	2017	2018	2019	2020e	2021e	2022e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS								
Revenue	33,429	43,380	33,532	17,373	29,762	51,332	42,989	42,367
Cost of Sales	(19,360)	(19,391)	(25,061)	(16,790)	(19,610)	(21,545)	(20,120)	(19,265)
Gross Profit	14,069	23,989	8,471	583	10,152	29,786	22,868	23,103
EBITDA	10,242	21,987	8,846	(1,714)	7,208	26,786	19,868	20,103
Operating Profit (before amort. and except.)	919	15,416	2,487	(6,373)	2,197	22,907	16,319	16,854
Intangible Amortisation	0	0	0	0	0	0	0	1
Exceptionals	(14,216)	0	(104)	0	0	0	0	0
Other	0	0	1,027	(1,763)	679	0	0	0
Operating Profit	(13,297)	15,416	3,410	(8,136)	2,876	22,907	16,319	16,855
Net Interest	(7,081)	(7,577)	(5,568)	(3,798)	(4,390)	(6,614)	(3,829)	(4,374)
Profit Before Tax (norm)	(6,162)	7,839	(3,081)	(10,171)	(2,193)	16,293	12,490	12,481
Profit Before Tax (FRS 3)	(20,378)	7,839	(2,158)	(11,934)	(1,514)	16,293	12,490	12,482
Tax	(1,116)	(1,355)	(28)	1,831	278	(7,270)	(2,425)	(2,741)
Profit After Tax (norm)	(7,278)	6,484	(2,082)	(10,103)	(1,236)	9,024	10,064	9,740
Profit After Tax (FRS 3)	(21,494)	6,484	(2,186)	(10,103)	(1,236)	9,024	10,064	9,741
Average Number of Shares Outstanding (m)	17.8	17.8	35.6	92.7	98.6	149.8	201.0	201.0
EPS - normalised (c)	(40.9)	36.4	(5.8)	(10.9)	(1.3)	6.0	5.0	4.8
EPS - normalised and fully diluted (c)	(35.8)	35.1	(5.7)	(10.8)	(1.2)	6.0	5.0	4.8
EPS - (IFRS) (c)	(120.7)	36.4	(6.1)	(10.9)	(1.3)	6.0	5.0	4.8
Dividend per share (c)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gross Margin (%)	42.1	55.3	25.3	3.4	34.1	58.0	53.2	54.5
EBITDA Margin (%)	30.6	50.7	26.4	-9.9	24.2	52.2	46.2	47.4
Operating Margin (before GW and except.) (%)	2.7	35.5	7.4	-36.7	7.4	44.6	38.0	39.8
BALANCE SHEET								
Fixed Assets	56,192	53,684	49,397	57,690	63,685	74,878	93,481	132,682
Intangible Assets	32,197	32,638	30,183	30,525	30,133	31,853	33,383	35,083
Tangible Assets	23,995	21,046	19,214	27,165	33,552	43,025	60,098	97,599
Investments	0	0	0	0	0	0	0	0
Current Assets	10,460	17,062	19,102	8,436	10,050	47,064	38,407	10,120
Stocks	4,833	7,883	7,425	3,753	5,057	8,555	7,165	7,061
Debtors	2,272	186	5,148	3,298	4,111	2,813	2,356	2,321
Cash	43	4,173	5,069	1,189	145	34,959	28,150	0
Other	3,312	4,820	1,460	196	737	737	737	737
Current Liabilities	(36,001)	(34,149)	(6,179)	(16,227)	(29,189)	(28,372)	(28,255)	(28,184)
Creditors	(5,901)	(3,537)	(2,005)	(1,828)	(6,147)	(5,330)	(5,213)	(5,142)
Short term borrowings	(30,100)	(30,612)	(4,174)	(14,399)	(23,042)	(23,042)	(23,042)	(23,042)
Long Term Liabilities	(70,307)	(66,995)	(82,054)	(73,053)	(68,864)	(68,864)	(68,864)	(70,108)
Long term borrowings	(61,366)	(58,117)	(71,098)	(62,671)	(59,781)	(59,781)	(59,781)	(61,025)
Other long term liabilities	(8,941)	(8,878)	(10,956)	(10,382)	(9,083)	(9,083)	(9,083)	(9,083)
Net Assets	(39,656)	(30,398)	(19,734)	(23,154)	(24,318)	24,706	34,770	44,510
CASH FLOW								
Operating Cash Flow	6,347	19,359	9,752	3,992	9,185	24,398	22,021	25,641
Net Interest	(7,081)	(7,577)	(5,568)	(3,798)	(4,390)	(6,614)	(3,829)	(4,374)
Tax	(13)	(27)	(79)	(58)	0	(7,270)	(2,425)	(2,741)
Capex	(118)	(2,391)	(3,025)	(8,605)	(9,556)	(15,700)	(22,575)	(47,920)
Acquisitions/disposals	0	0	0	0	0	0	0	0
Financing	49	(10)	5,424	2,367	11	40,000	0	0
Dividends	0	0	0	0	0	0	0	0
Net Cash Flow	(816)	9,354	6,504	(6,102)	(4,750)	34,814	(6,809)	(29,394)
Opening net debt/(cash)	90,607	91,423	84,556	70,203	75,881	82,678	47,864	54,673
HP finance leases initiated	0	0	0	0	0	0	0	0
Other	0	(2,487)	7,849	424	(2,047)	0	0	(0)
Closing net debt/(cash)	91,423	84,556	70,203	75,881	82,678	47,864	54,673	84,067

Source: Company sources, Edison Investment Research

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