

Auriant Mining

Q321 results

More than meets the eye

As in previous quarters, Auriant's new policy of selling gold on an 'as needed' (rather than maximised) basis has resulted in the full benefits of its new processing plant at Tardan being disguised. Allowing for a 7.5% under-sale of gold relative to production as well as a \$2.2m waste rock disposal provision, actual Q321 results were within 5.2% (or \$0.2m) of our prior expectations before tax (see Exhibit 2). Having produced 680kg gold so far in FY21 and with the mining of ore and waste at, or near, record levels in Q3, with a further quarter's worth of ore in stockpile, barring the unexpected, we believe that Auriant will comfortably achieve its FY21 production guidance for Tardan of 860–910kg.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/19	29.8	(2.2)	(1.3)	0.0	N/A	N/A
12/20	53.4	16.6	13.7	0.0	2.5	N/A
12/21e	49.0	12.4	10.5	0.0	3.3	N/A
12/22e	55.6	23.8	11.4	0.0	3.0	N/A

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

Net debt falling by more than is apparent

Although cash expenses increased by 17% or \$2.7m in the nine months to end-September, quarter-on-quarter, we estimate that Tardan's cost of sales declined 2.4% to \$47.91/t processed, which was 15.8% below our prior estimate and translated into an estimated group cost of production (excluding depreciation) of \$770/oz (ie flat relative to the prior quarter). Excluding lease liabilities, net debt declined by \$0.4m during the quarter, but would have declined by \$1.4m if all the gold produced during the quarter had been sold and could have declined by \$6.9m if all the gold currently held in inventory as 'finished products' had also been sold.

Valuation: \$1.45/share rising to \$2.33/share

On the basis that management executes the Kara-Beldyr project according to the operational and financial parameters expected and with production from FY26 (note: this is a risk already substantially mitigated by management's success in developing the Tardan CIL project), we estimate that Auriant is capable of generating average annual cash flows of \$58.8m, average earnings of \$53.5m and average EPS of \$0.34 from FY26–35. This would allow it to pay (average) maximum potential dividends of 39.0c/share in FY26–34. Discounted at our customary 10% rate, the value of such a stream of dividends to shareholders has declined by 8.8% to \$1.45/share (cf \$1.59/share previously), albeit the majority of the decline may be attributed to the recent weakness in Auriant's share price (thereby increasing future assumed dilution). However, the valuation has held relatively constant in Swedish krona terms, at SEK13.27/share (cf SEK13.61/share previously), on account of the recent relative strength in the value of the US dollar. In the meantime, we estimate that Auriant is trading on valuation multiples that are consistently lower than the averages of a selection of 13 London-listed gold mining companies and lower than the multiples of the companies themselves in 87% of instances (102 out of 117 individual measurements – see Exhibit 7).

Metals & mining

16 December 2021

Price **SEK3.12**
Market cap **SEK308m**

RUB74.1432/US\$; SEK9.1534/US\$

 Net debt (US\$m) at end-September 61.2
(includes lease liabilities)

Shares in issue (thousands) 98,768

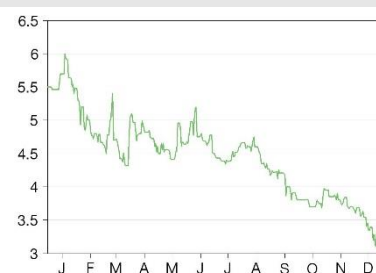
Free float 25.89%

Code AUR

Primary exchange Nasdaq First North Premier

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	(14.8)	(18.1)	(42.7)
Rel (local)	(10.6)	(19.2)	(56.6)

52-week high/low SEK6.00 SEK3.10

Business description

Auriant Mining is a Swedish gold miner focused on Russia. The company has two assets in production (Tardan in Tyva and Staroverinskaya/Solcocon in Zabaikalsky), one advanced exploration property (Kara-Beldyr in Tyva) and one early-stage exploration property (Uzhunzhul in Khakassia).

Next events

Q421 results 28 February 2022

Q122 results May 2022

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Auriant Mining is a research client of Edison Investment Research Limited

Q321 results analysis

Auriant's Q321 financial results were reported in the context of [known production](#) of 233.7kg from Tardan for the quarter (compared with our prior estimate of 222kg – albeit produced via the processing of a higher tonnage at a lower grade) and a largely known gold price:

Exhibit 1: Tardan CIL plant performance, Q120–Q321

	Q120	Q220	Q320	Q420	Q121	Q221	Q321e	Q321a	Change* (%)	Variance** (%)	Q1–Q321
Ore processed (kt)	100	96	95	103	96	111	95	117.3	+5.8	+23.5	324.2
Grade (g/t)	3.04	2.69	2.58	2.35	2.04	2.41	2.54	2.05	-14.9	-19.3	2.17
Gold in ore processed (kg)	303	258	245	239	196	267	242	240.2	-10.0	-0.7	703.0
Gold in ore processed (oz)	9,742	8,295	7,880	7,685	6,296	8,583	7,770	7,723	-10.0	-0.6	22,602
Gold produced CIL (kg)	278	243	229	203	210	237	222	233.7	-1.2	+5.3	680.0
Gold produced CIL (oz)	8,946	7,804	7,363	6,517	6,743	7,606	7,149	7,513	-1.2	+5.1	21,862
Total gold sold (kg)***	317	220	224	185	180	212	246	222	-9.8	-9.8	614
Total gold sold (oz)***	10,193	7,056	7,193	5,945	5,787	6,811	7,920	7,151	+5.0	-9.7	19,749

Source: Auriant, Edison Investment Research. Note: *Q321 cf Q221. **Q321a cf Q321e. ***Including Staroverinskaya/Solcocon.

A number of features of the results are noteworthy:

- Ore mined of 157kt during the quarter was at its highest level since Q219; at the same time, the volume of waste mined reached a recent record of 526,000m³ as operations focused on stripping ore Zones 3 and 26 within the Tardan licence area ahead of mining in FY22 and FY23.
- The plant processed 117.3kt of ore during the quarter, which represented a record quarterly throughput rate since the start of production in late Q419 (exceeding the previous record set in Q221 by 5.8%) and was above the plant's nameplate capacity of 50tph. Note that, on average, Auriant has been budgeting a throughput rate of 87.5–95.0kt per quarter at the Tardan plant in FY21 to produce an average 217.5–225.0kg gold per quarter, implying a yield of 2.29–2.57g/t and a likely head grade in the range 2.49–2.79g/t. So far in 2021, throughput during each of the three fully completed quarters of the year has exceeded this level.
- The processed grade of 2.05g/t during the quarter almost exactly matched the mined grade. As such, little or no net ore was derived from higher-grade stockpiles (in contrast to Q221), with Auriant's stockpile at Tardan increasing by 88% in size, from 50kt at the end of Q2 to 94kt at the end of Q3 (or approximately one quarter's worth of processing capacity) at an unchanged grade of 2.00g/t.
- Management reported an increased metallurgical recovery of 93.5%, which compared with 92.9% in H121 and 92.5% in Q121, and was above Edison's prior estimate of 92.0% as well as management's targeted recovery rate of 90% and reflected the results of successful ongoing work to align and optimise reagent use and consumption with the ore type being processed.
- For the sixth quarter in succession, Auriant sold less gold than it produced – in this case, by 18.0kg, or 578oz (Edison estimate). This is consistent with its new sales policy of selling gold on an 'as needed' basis now that it has repaid all of its high-cost debt (cf maximising gold sales previously). However, we estimate that it was also responsible for depressing revenue by c \$1.04m and, given its cost structure, associated costs by c \$0.65m and hence operating and pre-tax profits by c \$0.39m. Note that this sales result followed a comparable c 33.2kg (1,072oz) under-sale of gold in Q221, a 29.7kg (955oz) under-sale of gold in Q121, a 23.9kg (768oz) under-sale of gold in Q420, a 10.5kg (341oz) under-sale of gold in Q320 and a 23kg (748oz) under-sale in Q220. As a consequence, Auriant/Tardan has 113.4kg (3,646oz) of unsold gold included in 'finished products' inventory at end-Q321 (worth c \$6.46m at the current gold price of \$1,773/oz) compared to 101.4kg (3,260oz) at end-Q221. Note that Auriant's 'finished products' inventory is held on its balance sheet at \$3.3m, being the lower of

cost and net realisable value, implying an average cost of production \$916/oz. This figure reconciles tolerably closely with its Q321 cost of sales of \$1,123/oz sold (including depreciation) given that not all of the gold included in 'work in progress' will have been produced in Q3). Note that, in total, 'work in progress' and 'finished products' stocks on Auriant's Q321 balance sheet increased by \$1,148k (or 20.2%) over the course of the quarter to \$6,832k (cf \$5,684k at end-Q221, \$5,757k at end-Q121 and \$5,754k at end-Q420), albeit with the majority (74%) of the increase being attributable to 'work in progress' as a result of Auriant's pre-stripping activities. Note that one of the consequences of this 'as needed' sales policy is that, by holding liquid assets in the form of bullion/specie, Auriant's overall exposure to the gold price is increased as it removes an otherwise de facto hedge on the company's balance sheet in the form of fiat currency cash holdings.

- Cash expenses increased by 17% or \$2.7m in the nine months to end-September (cf 10%, or \$1m, in H121) relative to the prior year period, while the average cash cost per ounce produced at Tardan increased by 22%, from \$618/oz in the first nine months of 2020 (9M20) to \$756/oz in 9M21. This was in line with the 22% increase (from \$577/oz to \$705/oz) registered at the half year stage and was driven by higher volumes of stripping and exploratory drilling, lower average grade (given that the CIL plant was producing from high-grade stockpiles in H120), the indexation of salaries and wages and a short, scheduled plant maintenance shutdown in Q121. However, this was no more than was expected in the company's production plan. In addition, the company benefited from a c 4% devaluation of the Russian rouble relative to the US dollar in 9M21 relative to the prior year period (cf a 7% devaluation at the half year stage). Quarter-on-quarter, we estimate that Tardan's cost of sales amounted to \$47.91/t processed, which represented a 2.4% decline relative to Q221 and was 15.8% below our prior estimate of \$56.88/t. This unit cost result translated into an estimated group cost of production (excluding depreciation) of \$770/oz in Q321, which was flat relative to the prior quarter.

Exhibit 2 summarises Auriant's Q321 results in the context of the prior quarter's results and our previous expectations. One unusual feature of the company's financial results was that, in November, Tardan received a request from the Russian State Service for Supervision of Natural Resource Usage (Rosprirodnadzor, or RPN) to make an additional payment for waste disposal of \$1.1m, relating to the disposal of waste rock from Pravoberezhny on dumps located at the mine in 2019 and 2020. In addition, Auriant anticipates that a further waste disposal payment of a similar \$1.1m will be required for 2021 to bring the total to \$2.2m, which was included as a provision in 'other operating expenses' in Q3 and 9M21 results (albeit the final numbers will be updated based on the results of the full year). Note that this figure of \$2.2m has been excluded from Exhibit 2, below, in order that appropriate comparison may be made with both Auriant's prior quarter and also Edison's prior forecasts. However, it is included in our financial forecasts for the full year in Exhibit 3 and also in Exhibit 10 (albeit as an exceptional item in this latter exhibit).

In the event, once adjusted for the estimated \$0.39m negative variance in operating profits as a result of the under-sale of gold relative to production, actual Q321 results were within 5.2% of our prior expectations before tax:

Exhibit 2: Auriant results, Q419–Q321, by quarter (\$000s*)

	Q419	Q120	Q220	Q320	Q420	Q121	Q221	Q321e	Q321a (underlying)	Change ***(%)	Variance ****(%)
Production											
Tardan heap leach (kg)	95.4	0	0	0	0	0	0	0	0	N/A	0.0
Tardan CIL (kg)	110.0	278	243	229	203	209.7	237	222	233.7	-1.2	+5.3
Tardan total (kg)	205.4	278	243	229	203	209.7	237	222	233.7	-1.2	+5.3
Alluvial production (kg)	2.5	0	0	5	7	0	9	24	6.8	-20.9	-71.7
Gold price (\$/oz)	**1,481	1,585	1,713	1,911	**1,875	1,830	1,813	1,797	**1,806	-1.3	-0.4
Income statement											
Revenue	8,975	16,154	12,276	13,832	11,147	10,591	12,351	14,234	12,917	4.6	-9.3
Cost of sales	4,830	5,928	4,459	4,772	4,165	4,759	6,102	6,389	5,952	-2.5	-6.8
Gross profit	4,145	10,226	7,817	9,060	6,982	5,832	6,249	7,846	6,965	11.5	-11.2
Depreciation	(1,652)	(1,647)	(1,846)	(2,278)	(2,283)	(1,857)	(2,172)	(2,197)	(2,080)	-4.2	-5.3
General & administration	(480)	(576)	(567)	(873)	(929)	(757)	(571)	(750)	(688)	20.5	-8.3
Other operating income	7	53	15	4	24	14	20	0	22	10.0	N/A
Other operating expenses	(755)	(182)	(8)	(911)	(1,958)	(79)	(127)	(116)	(316)	148.8	172.4
Impairments etc											
EBIT	1,265	7,874	5,411	5,002	1,836	3,153	3,399	4,783	3,903	14.8	-18.4
Interest income	0	0	0	0	0	0	0	0	0	N/A	N/A
Interest expense	(1,200)	(1,584)	(1,597)	(1,339)	(1,151)	(910)	(875)	(821)	(715)	-18.3	-12.9
Net interest	(1,200)	(1,584)	(1,597)	(1,339)	(1,151)	(910)	(875)	(821)	(715)	-18.3	-12.9
Forex gain/(loss)	(240)	(147)	128	(225)	(480)	118	233		179	-23.2	N/A
Profit before tax	(175)	6,143	3,942	3,438	205	2,361	2,757	3,962	3,367	22.1	-15.0
Tax	445	248	1,275	475	1,077	652	813	616	512	-37.0	-16.9
Effective tax rate (%)	(254.3)	4.0	32.3	13.8	525.4	27.6	29.5	15.5	15.2	-48.5	-1.9
Profit after tax	(620)	5,895	2,667	2,963	(872)	1,709	1,944	3,346	2,855	46.9	-14.7
Average no. shares (000s)	98,649	98,649	98,649	98,729	98,768	98,768	98,768	98,768	98,768	0.0	0.0
Derivatives (000s)	0	345	0	0	0	0	0	0	0	N/A	N/A
Fully diluted no. shares (000s)	98,649	98,994	98,649	98,729	98,768	98,768	98,768	98,768	98,768	0.0	0.0
EPS (\$/share)	(0.006)	0.060	0.027	0.030	(0.009)	0.017	0.020	0.034	0.029	44.5	-15.0
Diluted EPS (\$/share)	(0.006)	0.060	0.027	0.030	(0.009)	0.017	0.020	0.034	0.029	44.5	-15.0

Source: Edison Investment Research, Auriant Mining. Note: As reported. *Unless otherwise indicated. **Estimate. ***Q321 versus Q221. ****Q321a versus Q321e.

Auriant's effective tax rate of 15.2% was closely in line with our forecast rate of 15.5% (NB leading to a negligible rise in the value of deferred tax assets on Auriant's balance sheet of just \$86k quarter-on-quarter). This is well within the normal range of variation historically observed for Auriant's tax rate on a quarterly basis (see Exhibit 2). However, slightly unusually, cash taxes of \$2.1m were higher than the income statement charge of \$512k, which had the effect of depressing cash flow from operations to \$2.3m in Q321 (cf \$6.2m in Q221), of which \$0.8m was consumed in investing activities and the majority of the remainder used to pay interest and repay debt (including leases).

Guidance and assumptions

FY21

Production

Auriant reiterated its total production guidance for 2021 of 900–930kg gold from Tardan and Staroverinskaya/Solcocon combined (cf 953kg produced in FY20). Assuming production from Staroverinskaya/Solcocon of c 20–40kg (albeit this has proven to be susceptible to both weather-related risks and COVID-19 related risks in the past), this total implies production from the Tardan

CIL plant in the range 860–910kg, which we expect Auriant to meet comfortably, all other things being equal (see Exhibit 3). As in FY20, relatively little seasonal variation in production is anticipated at the Tardan CIL plant (in contrast to the former heap leach operation).

Costs

As a result of test work conducted during the ramp-up phase, Auriant upgraded the leaching tanks at Tardan (in Q419) 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, which has allowed it to minimise its use of diesel generators on site and, on occasion, to stop using them altogether. Cash costs per tonne processed are nevertheless expected to be broadly unchanged in US dollar terms in FY21 relative to FY20 (eg \$55.65/t cf \$54.04/t – Edison calculation), reflecting higher volumes of stripping and exploration drilling and some inflationary pressures in local currency terms (given something of a 'boom' in resources investment in Russia in addition to normal staff salary indexation). At the same time, the value of the rouble has fallen by 2.1% relative to the US dollar, from RUB72.6537/US\$ at the time of our last note ([Sales policy disguises extent of improvements](#), published on 14 September 2021) to RUB74.1432/US\$ at the time of writing, while the oil price is currently 47% higher than it was this time last year and has been 66% higher so far this year, to date. Finally, as discussed previously, stripping costs delayed from FY20 and exploration costs are now also contributing to costs in FY21.

FY21 quarterly forecasts

Based on the production guidance provided by management for FY21 (and with the usual caveat surrounding quarterly predictions – but with especial note of Auriant's propensity to sell gold on an 'as needed' rather than 'maximised' basis), our financial forecasts for Auriant for FY21 by quarter are as shown in Exhibit 3.

Relative to our prior forecasts, the main changes that we have made to our estimates are:

- A 0.5% decline in the forecast average price of gold in Q421, from \$1,798/oz to \$1,789/oz.
- Revisions to forex rates for the remainder of the year of:
 - RUB74.1432/US\$ compared to RUB72.6537/US\$ previously (+2.1%)
 - SEK9.1534/US\$ compared to SEK8.5570/US\$ previously (+7.0%)
 - US\$1.1236/€ compared to US\$1.1843/€ previously (-5.1%)

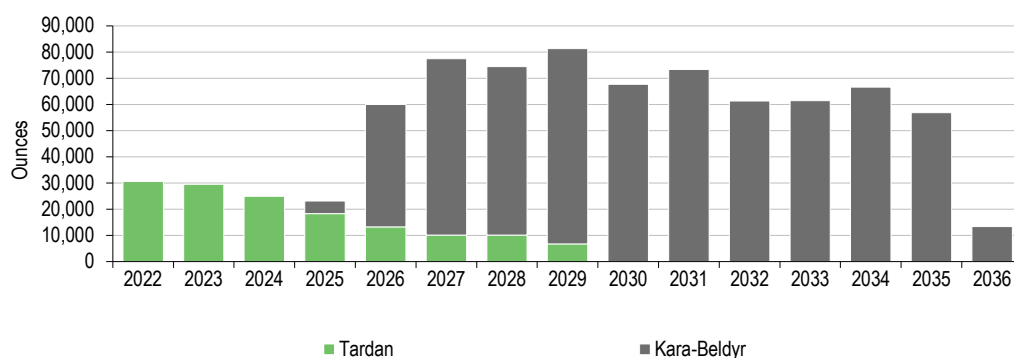
Exhibit 3: Auriant estimates, Q121–Q421e, by quarter (\$000s*)

	Q121a	Q221a	Q321a	Q421e (previous)	Q421e (current)	FY21e (current)	FY21e (previous)
Production							
Tardan heap leach (kg)	0	0	0	0	0	0	0
Tardan CIL (kg)	209.7	236.6	233.7	222	222	902	891
Tardan total (kg)	209.7	236.6	233.7	222	222	902	891
Alluvial production (kg)	0	8.6	6.8	6	6	21	39
Gold price (\$/oz)	1,830	1,813	**1,806	1,798	1,789	1,808	1,808
Income statement							
Revenue	10,591	12,351	12,917	13,200	13,134	48,993	50,377
Cost of sales	4,759	6,102	5,952	5,650	5,697	22,510	22,900
Gross profit	5,832	6,249	6,965	7,550	7,436	26,482	27,477
Depreciation	(1,857)	(2,172)	(2,080)	(2,222)	(2,105)	(8,214)	(8,448)
General & administration	(757)	(571)	(688)	(750)	(750)	(2,766)	(2,828)
Other operating income	14	20	22	0	0	56	34
Other operating expenses	(79)	(127)	(2,516)	(116)	(116)	(2,838)	(438)
Impairments etc						0	0
EBIT	3,153	3,399	1,703	4,462	4,465	12,720	15,797
Interest income	0	0				0	0
Interest expense	(910)	(875)	(715)	(755)	(700)	(3,200)	(3,360)
Net interest	(910)	(875)	(715)	(755)	(700)	(3,200)	(3,360)
Forex gain/(loss)	118	233	179			530	351
Profit before tax	2,361	2,757	1,167	3,707	3,766	10,051	12,788
Tax	652	813	512	576	586	2,563	2,657
Marginal tax rate (%)	27.6	29.5	43.9	15.5	15.5	25.5	20.8
Profit after tax	1,709	1,944	655	3,131	3,180	7,488	10,130
Average no. shares (000s)	98,768	98,768	98,768	98,768	98,768	98,768	98,768
Derivatives (000s)	0	0	0	0	0	0	0
Fully diluted no. shares (000s)	98,768	98,768	98,768	98,768	98,768	98,768	98,768
EPS (\$/share)	0.017	0.020	0.007	0.032	0.032	0.076	0.103
Diluted EPS (\$/share)	0.017	0.020	0.007	0.032	0.032	0.076	0.103

Source: Edison Investment Research. Note: *Unless otherwise indicated.

Kara-Beldyr timing

Kara-Beldyr has now been confirmed as part of the regional electricity development programme in the Tyva Republic. However, owing to a slower than expected decision-making process, the start of production has now been pushed back by Auriant from 2024 to 2025 and this assumption has now also been incorporated into Edison's valuation of the company (below), such that the combined production profile of each of the company's two major assets is now presumed to be as follows:

Exhibit 4: Auriant forecast gold production, 2022–36, by mine


Source: Edison Investment Research, Auriant Mining

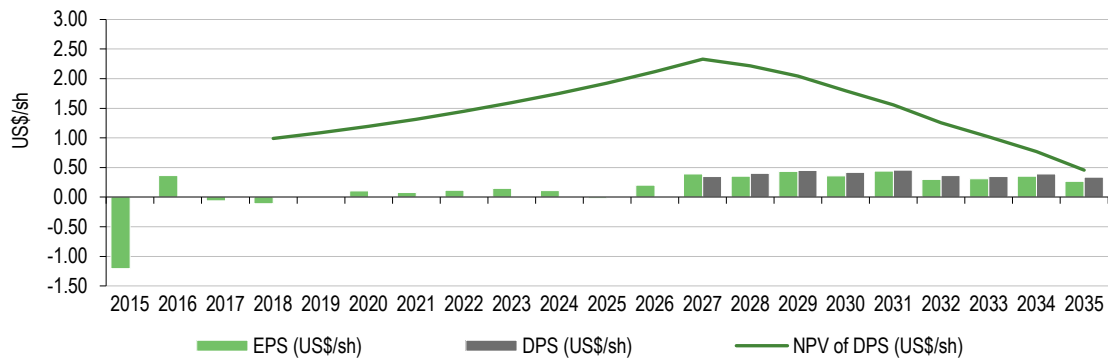
Valuation

Absolute 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 and the Kara-Beldyr projects according to the operational and financial parameters anticipated, we estimate that Auriant is capable of generating average cash flows of \$58.8m, average earnings of \$53.5m and average EPS of 34.0c in the 10 years from FY26–35, thus allowing it to pay (average) maximum potential dividends to shareholders of 39.0c per share in the period FY27–35. Discounted at our customary 10% discount rate, such a stream of dividends has a value of \$1.45 per share as at 1 January 2022 (cf \$1.59/share as at 1 January 2021 previously), as shown in the exhibit below. This valuation then rises to \$2.33/share on the cusp of the company's first potential dividend in FY27.

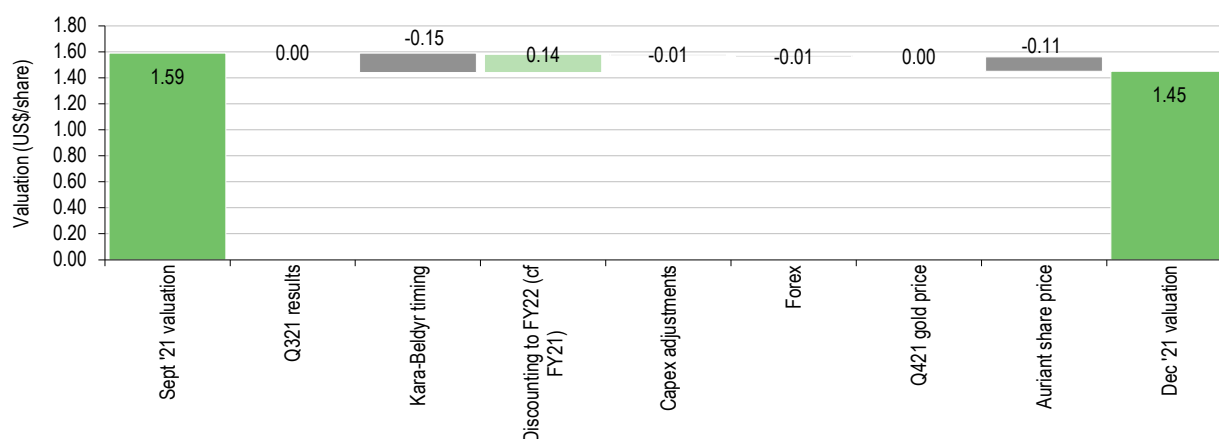
Exhibit 5: Auriant forecast EPS and maximum potential DPS, FY15–35e



Source: Edison Investment Research

Readers should also note that our valuation specifically excludes any value attributable to Staroverinskaya/Solcocon beyond FY21 on account of the variable nature of alluvial mining operations. However, it is possible that activities at Staroverinskaya/Solcocon may be reconfigured in due course to incorporate hard rock mining and processing.

A bridge chart reconciling our updated valuation of Auriant with our prior valuation, according to the individual factors responsible for the change, is provided below:

Exhibit 6: Bridge chart of Edison's Auriant valuation, September 2021 to present


Source: Edison Investment Research

Readers should note that, with the delay in the timing of the development of Kara-Beldyr being approximately balanced by the passage of time (ie our updated valuation discounting to January 2022 rather than 2021), the majority of the decline in Edison's valuation of Auriant could be attributed to the decline in the latter's share price, from SEK3.84 at the time of our last note ([Sales policy disguises extent of improvements](#), published on 14 September 2021) to SEK3.12 currently, thereby increasing future assumed dilution (see 'Sensitivities and risks', below). In the absence of this factor, our valuation would have otherwise remained steady, at \$1.56/share (cf \$1.59/share previously).

Relative valuation

Based on Edison estimates, it may be observed that Auriant is trading on valuation multiples that are consistently lower than the averages of a selection of 13 London-listed gold mining companies and lower than the multiples of the companies themselves in 87% of instances (102 out of 117 individual measurements):

Exhibit 7: London-listed Russian and international gold miners' ratings

Company	Ticker	EV/EBITDA (x)			P/E (x)			Price/cash-flow (x)		
		Year 1	Year 2	Year 3	Year 1	Year 2	Year 3	Year 1	Year 2	Year 3
LSE-listed gold miners										
Endeavour	EDV	4.3	4.3	4.6	9.2	8.9	9.0	4.4	4.2	4.3
Polymetal	POLYP	6.4	5.6	6.3	8.0	6.7	7.1	6.3	5.0	5.8
Fresnillo	FRES	6.5	5.3	6.1	15.8	13.6	17.5	8.7	8.1	9.1
Centamin	CEY	2.7	2.9	2.8	10.0	11.2	11.8	6.0	3.5	5.2
Petropavlovsk	POG	5.4	3.8	3.8	15.9	6.1	5.7	6.6	3.3	3.3
Hochschild	HOC	2.5	2.6	2.9	10.4	10.7	13.2	3.8	3.5	1.1
Polyus	PLZL	7.1	7.1	6.4	9.0	8.5	8.8	7.4	6.8	6.7
Yamana Gold	YRI	5.1	4.9	5.2	13.5	13.4	17.8	5.0	4.4	4.3
Resolute Mining	RSGAU	3.4	2.2	2.5	-	6.9	10.4	2.6	1.5	1.6
Hummingbird	HUMR	3.2	2.0	1.3	-	4.7	2.3	-	0.1	0.1
Shanta	SHAN	4.1	2.1	1.4	-	6.7	5.1	5.4	4.8	2.2
Chaarat	CGH	5.7	11.3	3.8	32.8	-	16.2	8.4	-	-
Pan African	PAFR	3.0	2.8	3.3	4.7	4.7	5.3	4.2	4.0	4.2
Simple totals/averages		4.6	4.4	3.9	12.9	8.5	10.0	5.7	4.1	4.0
FSU totals/averages		6.1	6.9	5.1	16.4	7.1	9.4	7.2	5.0	5.3
Non-FSU totals/averages		3.8	3.2	3.4	10.6	9.0	10.3	5.0	3.8	3.6
Auriant Mining**		*3.7	*2.2	*2.2	3.3	3.0	2.3	2.1	2.1	2.0

Source: Edison Investment Research, Refinitiv. Priced 15 December 2021. Note: *Forecast EV. **Based on Edison forecasts. FSU = Former Soviet Union.

Within the context of the above table, readers should also note that, in general (and possibly contrary to public opinion), FSU-focused gold mining companies typically command ratings that are, on average, at a 41.6% premium to those of their international peers.

Sensitivities and risks

In qualitative terms, the principal risks to which Auriant is immediately exposed include geographical/sovereign (including regulatory), geological, metallurgical, engineering, funding, financing and management risks. In general terms, these may be summarised as execution risk relating to management's ability to bring the Kara-Beldyr project in particular to account within its geographical jurisdiction at the required technical and economic parameters (note however that this risk has already been substantially mitigated by management's success in developing the Tardan CIL project). Once in production, these risks will reduce and be partially replaced by others, such as commercial, commodity price, foreign exchange and global economic risks.

However, one specific risk that bears further, immediate consideration from an empirical perspective is funding. In this particular case, our valuation is sensitive to the price at which Auriant is assumed to raise an additional \$20m in equity for Kara-Beldyr (assumed at the start of FY22) as follows:

Exhibit 8: Valuation sensitivity to equity funding price											
Premium/(discount) to current share price (%)	-35.9	-19.9	-3.8	u/c	+12.2	+28.2	+44.2	+60.3	+76.3	+92.3	+108.3
Equity fund-raising price (SEK)	2.00	2.50	3.00	3.12	3.50	4.00	4.50	5.00	5.50	6.00	6.50
Valuation (\$/share)	1.20	1.33	1.43	1.45	1.51	1.58	1.63	1.68	1.73	1.76	1.80
Valuation (SEK/share)*	10.98	12.17	13.09	13.27	13.82	14.46	14.92	15.38	15.84	16.11	16.48
Change of 'base case' (%)	-17.2	-8.3	-1.4	0.0	+4.1	+9.0	+12.4	+15.9	+19.3	+21.4	+24.1

Source: Edison Investment Research. Note: *Converted at the prevailing FX rate of SEK9.1534/\$.

NB Assuming conversion before FY27, 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 compared to conventional 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 of Auriant instead rises to \$2.14/share, albeit with a correspondingly higher maximum debt level of \$62.3m (cf \$37.8m in the 'base case' scenario – see 'Financials' section, below).

Financials

At end-September 2021, Auriant had net debt of \$59.9m on its balance sheet (cf \$60.3m at end-Q221, \$64.2m at end-Q121 and \$65.7m at end-Q420), but \$61.2m (cf \$61.9m at end-Q221, \$66.1m at end-Q121 and \$67.2m at end-Q420) if lease liabilities are included. While, at first glance, net debt has declined by \$0.4m during the quarter (excluding lease liabilities), we estimate that it would have fallen by \$1.4m if all the gold produced during the quarter had been sold and by \$6.9m if all the gold currently held in inventory as 'finished products' had also been sold. As noted in its results call with analysts on 30 August, the change in Auriant's sales policy with respect to gold (from 'maximised' to 'as needed') has arisen as a consequence of its success in fully repaying earlier high cost debt (originally raised to help finance the CIL plant construction), which has resulted in a material reduction in interest rates from 9.5% in H120 to 4.9% in H121 and which has also now allowed it to refocus operationally on deferred stripping at the Tardan deposit. Hence early/accelerated debt repayment is no longer a priority for the company.

Assuming the company raises an additional SEK183.1m (\$20m) in cash via equity funding at the start of FY22, we forecast that its net debt will evolve as follows until FY26, before being eliminated in FY27 (NB excluding any effect from unsold gold):

Exhibit 9: Auriant forecast net debt* evolution, FY20–26e (\$m)

End-year	FY20	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e
Net debt (current estimates)	67.2	54.8	24.3	18.4	37.7	37.8	10.7

Source: Auriant Mining accounts, Edison Investment Research. Note: Includes lease liabilities.

Note that the estimates above assume the start of Kara-Beldyr capex in FY22. Otherwise, our estimate of Auriant's maximum (future) net debt requirement of \$37.8m at end-FY25 equates to a gearing ratio (net debt/equity) of 55.3% and leverage ratio (net debt/(net debt+equity)) of 35.6%.

COVID-19

Mining operations at Tardan continue to operate, to all intents and purposes, as normal. All personnel on site are subject to daily temperature checks and the mandatory use of personal protective equipment to minimise the risk of infection. Intensive disinfection measures have also been implemented. To date, quarantine measures are reported to have had an insignificant effect on the mine's operations. Further measures will depend on employee test results. In the meantime, Auriant has launched a vaccination programme at Tardan. To date in FY21, it has vaccinated 80% of its workforce. All other things being equal therefore, management is confident that mining and gold production can be maintained at Tardan. In accordance with Rospotrebnadzor's instructions, infected employees are released from observation once two negative test results at least one day apart have been obtained.

Exhibit 10: Financial summary

	US\$'000s	2015	2016	2017	2018	2019	2020	2021e	2022e	2023e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue		33,429	43,380	33,532	17,373	29,762	53,409	48,993	55,577	51,522
Cost of Sales		(19,360)	(19,391)	(25,061)	(16,790)	(19,610)	(19,324)	(22,510)	(17,386)	(15,889)
Gross Profit		14,069	23,989	8,471	583	10,152	34,085	26,482	38,191	35,633
EBITDA		10,242	21,987	8,846	(1,714)	7,208	31,236	23,772	35,191	32,633
Operating Profit (before amort. and except.)		919	15,416	2,487	(6,373)	2,197	23,182	15,558	26,521	29,661
Exceptionals		(14,216)	0	(104)	0	0	(3,059)	(2,838)	0	0
Other		0	0	1,027	(1,763)	679	0	530	0	0
Operating Profit		(13,297)	15,416	3,410	(8,136)	2,876	20,123	13,250	26,521	29,661
Net Interest		(7,081)	(7,577)	(5,568)	(3,798)	(4,390)	(6,606)	(3,200)	(2,740)	(1,215)
Profit Before Tax (norm)		(6,162)	7,839	(3,081)	(10,171)	(2,193)	16,576	12,359	23,781	28,446
Profit Before Tax (FRS 3)		(20,378)	7,839	(2,158)	(11,934)	(1,514)	13,517	10,051	23,781	28,446
Tax		(1,116)	(1,355)	(28)	1,831	278	(3,075)	(2,563)	(5,758)	(5,394)
Profit After Tax (norm)		(7,278)	6,484	(2,082)	(10,103)	(1,236)	13,501	10,326	18,023	23,052
Profit After Tax (FRS 3)		(21,494)	6,484	(2,186)	(10,103)	(1,236)	10,442	7,488	18,023	23,052
Average Number of Shares Outstanding (m)		17.8	17.8	35.6	92.7	98.6	98.7	98.8	157.4	157.4
EPS - normalised (c)		(40.9)	36.4	(5.8)	(10.9)	(1.3)	13.7	10.5	11.4	14.6
EPS - normalised and fully diluted (c)		(35.8)	35.1	(5.7)	(10.8)	(1.2)	13.7	10.5	11.4	14.6
EPS - (IFRS) (c)		(120.7)	36.4	(6.1)	(10.9)	(1.3)	10.6	7.6	11.4	14.6
Dividend per share (c)		0.0	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	63.8	54.1	68.7	69.2
EBITDA Margin (%)		30.6	50.7	26.4	-9.9	24.2	58.5	48.5	63.3	63.3
Operating Margin (before GW and except.) (%)		2.7	35.5	7.4	-36.7	7.4	43.4	31.8	47.7	57.6
BALANCE SHEET										
Fixed Assets		56,192	53,684	49,397	57,690	63,685	54,183	46,989	52,633	70,538
Intangible Assets		32,197	32,638	30,183	30,525	30,133	23,952	26,614	28,314	28,314
Tangible Assets		23,995	21,046	19,214	27,165	33,552	30,231	20,376	24,319	42,225
Current Assets		10,460	17,062	19,102	8,436	10,050	10,687	25,027	56,986	62,009
Stocks		4,833	7,883	7,425	3,753	5,057	7,449	8,165	9,263	8,587
Debtors		2,272	186	5,148	3,298	4,111	1,455	2,685	3,045	2,823
Cash		43	4,173	5,069	1,189	145	422	12,816	43,317	49,238
Other		3,312	4,820	1,460	196	737	1,361	1,361	1,361	1,361
Current Liabilities		(36,001)	(34,149)	(6,179)	(16,227)	(29,189)	(16,498)	(16,155)	(15,734)	(15,611)
Creditors		(5,901)	(3,537)	(2,005)	(1,828)	(6,147)	(2,193)	(1,850)	(1,429)	(1,306)
Short term borrowings		(30,100)	(30,612)	(4,174)	(14,399)	(23,042)	(14,305)	(14,305)	(14,305)	(14,305)
Long Term Liabilities		(70,307)	(66,995)	(82,054)	(73,053)	(68,864)	(61,649)	(61,649)	(61,649)	(61,649)
Long term borrowings		(61,366)	(58,117)	(71,098)	(62,671)	(59,781)	(53,306)	(53,306)	(53,306)	(53,306)
Other long term liabilities		(8,941)	(8,878)	(10,956)	(10,382)	(9,083)	(8,343)	(8,343)	(8,343)	(8,343)
Net Assets		(39,656)	(30,398)	(19,734)	(23,154)	(24,318)	(13,277)	(5,788)	32,235	55,288
CASH FLOW										
Operating Cash Flow		6,347	19,359	9,752	3,992	9,185	26,649	22,033	33,478	33,575
Net Interest		(7,081)	(7,577)	(5,568)	(3,798)	(4,390)	(6,606)	(3,200)	(2,740)	(1,215)
Tax		(13)	(27)	(79)	(58)	0	(674)	(2,563)	(5,758)	(5,394)
Capex		(118)	(2,391)	(3,025)	(8,605)	(9,556)	(3,822)	(3,878)	(14,480)	(21,045)
Acquisitions/disposals		0	0	0	0	0	0	0	0	0
Financing		49	(10)	5,424	2,367	11	(272)	0	20,000	0
Dividends		0	0	0	0	0	0	0	0	0
Net Cash Flow		(816)	9,354	6,504	(6,102)	(4,750)	15,275	12,393	30,500	5,922
Opening net debt/(cash)		90,607	91,423	84,556	70,203	75,881	82,678	67,189	54,795	24,294
Other		0	(2,487)	7,849	424	(2,047)	214	(0)	0	0
Closing net debt/(cash)		91,423	84,556	70,203	75,881	82,678	67,189	54,796	24,294	18,373

Source: company sources, Edison Investment Research

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