

Auriant Mining

Q3 results

Tardan CIL >60% complete

Metals & mining

19 December 2018

Price **SEK2.14**

Market cap **SEK211m**

SEK8.9898/US\$

Net debt (US\$m) at end-September 2018 70.7

Shares in issue (000s) 98,649

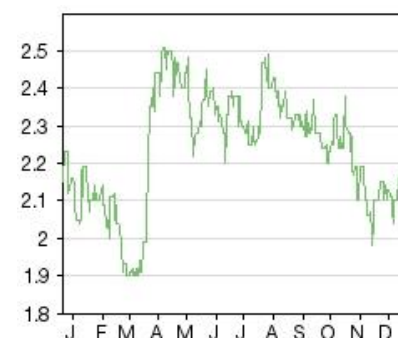
Free float 33%

Code AUR

Primary exchange Nasdaq First North Premier

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 2.4 (5.7) 2.9

Rel (local) 6.0 6.5 11.5

52-week high/low SEK2.5 SEK1.9

Business description

Auriant is a Swedish gold company, focusing on exploration and production in Russia. It 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

Q418 results 28 February 2019

Q119 results May 2019

Tardan CIL first production July 2019

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Auriant's Q318 results were characterised by a resumption of mining at Tardan, with 65kt of ore mined at an average grade of 2.79g/t to produce 96kg (3,087oz) gold during the quarter. As a result, the company expects Tardan to produce 380kg (12,217oz) in FY18, which implies production of 173.8kg (5,588oz) in Q418, 8.6% above its earlier guidance of 350kg (11,252oz). However, heavy rainfall in July led to widespread flooding in the Zabaikalsky region, so production at Solcocon in FY18 is now expected to be 73–75kg (2,347–2,411oz) versus earlier guidance of 150kg (4,823oz). As a result, we have updated our forecasts to reflect revised production guidance as well as a lower gold price in H218 versus H118.

Year end	Revenue (US\$m)	PBT* (US\$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
12/16	43.4	7.8	36.4	0.0	0.7	N/A
12/17	33.5	(3.1)	(5.8)	0.0	N/A	N/A
12/18e	18.3	(11.2)	(11.1)	0.0	N/A	N/A
12/19e	45.1	9.7	7.6	0.0	3.1	N/A

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

FY19 guidance

In addition to FY18, Auriant has also provided guidance for FY19, including its expectation of production of 570kg (18,326oz) from the Tardan CIL project, 400–450kg (12,860–14,468oz) from the Tardan heap leach operation and 90kg (2,894oz) from Solcocon. The revised guidance has caused us to adjust our forecasts slightly for FY19 to reflect higher output overall, albeit at a lower margin to reflect the lower proportion of output from the CIL plant.

Progress on Tardan CIL project

The Tardan CIL project is reported to be running slightly behind schedule, but still c 60% complete, and is expected to enter production in July 2019. As at end November, the metal frame was reported to be >80% complete, the foundations for heavy equipment 100% complete, the supplementary buildings 90% complete, the coal heating station 100% complete and a new high voltage line 100% complete.

Valuation: US\$0.82/SEK7.37 with 89% upside

Assuming an incremental US\$13.8m equity fund raising at the prevailing share price in FY19 (to bring the total to US\$17.2m gross including the warrant exercise in March 2018), we estimate that Auriant is capable of generating average cash flows of US\$37.3m, average earnings of US\$31.2m and average EPS of 20.0 cents per annum in the 12-year period of FY22–33 (inclusive). This will allow it to pay maximum average potential dividends to shareholders in the order of 24.0c per share in the period FY25–33 (inclusive). Discounted at our customary 10% discount rate, such a stream of dividends has a value of US\$0.82/share, rising to US\$1.55/share (SEK7.37, rising to SEK13.93) on the cusp of the company's first substantive dividend in FY25.

Q3 results summary

Auriant's Q318 results were characterised by a resumption of mining at Tardan, with 65kt of ore mined at an average grade of 2.79g/t to produce 96kg (3,087oz) gold during the period. As a result, the company expects that production for Tardan during FY18 will be 380kg (12,217oz), which implies production of 173.8kg (5,588oz) in Q418 and is 8.6% above its earlier guidance of 350kg (11,252oz). At the same time, heavy rainfall in July led to widespread flooding in the Zabaikalsky region, which disrupted operations at Solcocon. Although output of 46.6kg (1,498oz) during the quarter was above that of 41.2kg (1,325oz) in the corresponding quarter in 2017, and despite the fact that mining continued into October, the company now expects production from Solcocon to be 73–75kg (2,347–2,411oz) in FY18, compared with its earlier guidance of 150kg (4,823oz). As a result, our expectations for Auriant's results for FY18 have been updated, as shown in Exhibit 1. This also reflects the decline in the gold price from an average of US\$1,317/oz in H118 to US\$1,212/oz in Q318 and US\$1,219/oz to date in Q418.

Exhibit 1: Auriant results, Q118–Q418e, by quarter (US\$000s*)

	Q118	Q218	Q318	Q418e	FY18e (current)	FY18e (previous)	FY19e (current)	FY19e (previous)
Tardan heap leach production (kg)	70.6	39.7	96.0	173.8	380.1	329.0	450.0	153.0
Tardan CIL production (kg)	0.0	0.0	0.0	0.0	0.0	0.0	570.0	842.0
Tardan production (kg)	70.6	39.7	96.0	173.8	380.1	329.0	1,020.0	995.0
Solcocon production (kg)	0.0	16.1	46.6	10.3	73.0	150.0	90.0	0.0
Gold price (US\$/oz)	1,335	1,318	1,212	1,225	1,291	1,320	1,263	1,263
Revenue	2,327	3,606	5,108	7,250	18,291	20,346	45,070	40,403
Cost of sales	-2,641	-4,371	-5,035	-6,237	-18,284	-14,447	-22,557	-17,389
Gross profit	-314	-765	73	1,013	7	5,899	22,513	23,014
Depreciation	-1,083	-844	-1,310	-1,510	-4,747	-4,632	-4,239	-4,239
General & administration	-678	-829	-496	-668	-2,671	-2,500	-2,500	-2,500
Other operating income	50	189	97	0	336	0	0	0
Other operating expenses	-68	-390	257	-116	-317	-466	-317	-466
Impairments etc	0	0	0	0	0	0		
EBIT	-2,093	-2,639	-1,379	-1,281	-7,392	-1,699	15,457	15,809
Interest income	5	0	0	0	5	0		
Interest expense	-940	-1,015	-875	-943	-3,773	-5,616		
Net interest	-935	-1,015	-875	-943	-3,768	-5,616	-5,748	-4,681
Forex gain/(loss)	-225	-1,043	-82	0	-1,350	0		
Profit before income tax expense	-3,253	-4,697	-2,336	-2,224	-12,510	-7,315	9,709	11,128
Tax	608	671	536	445	2,260	0	0	0
Marginal tax rate	18.7	14.3	22.9	20.0		0.0	0.0	0.0
Profit after tax	-2,645	-4,026	-1,800	-1,779	-10,250	-7,315	9,709	11,128
Minority interest	0	0	0	0	0	0	0	0
Do. (%)	0	0	0	0	0	0	0	0
Profit attributable to shareholders	-2,645	-4,026	-1,800	-1,779	-10,250	-7,315	9,709	11,128
Dividend	0	0	0	0	0	0	0	0
Retained earnings	-2,645	-4,026	-1,800	-1,779	-10,250	-7,315	9,709	11,128
Average no. shares (000's)	74,847.182	98,648.502	98,648.502	98,648.502	92,698.172	130,840.845	127,586.031	168,968.882
Derivatives (000's)	0.000	692.500	692.500	692.500	692.500	692.500	692.500	692.500
Fully diluted no. shares (000's)	74,847.182	99,341.002	99,341.002	99,341.002	93,390.672	131,533.345	128,278.531	169,661.382
EPS (US\$/sh)	-0.035	-0.041	-0.018	-0.018	-0.111	-0.056	0.076	0.066
Diluted EPS (US\$/sh)	-0.035	-0.041	-0.018	-0.018	-0.110	-0.056	0.076	0.066

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

In part the increase in our forecast for 'cost of sales' may be attributed to the flooding in Zabaikalsky, although at least US\$2.1m of the increase may also be attributed to changes in 'work in progress' in H118.

In addition to its guidance for FY18, Auriant has also provided guidance for FY19, including its expectation of production of 570kg (18,326oz) from the Tardan CIL project, 400–450kg (12,860–14,468oz) from the Tardan heap leach operation and 90kg (2,894oz) from Solcocon. The slightly revised guidance has caused us to slightly adjust our forecasts for FY19 to reflect higher output overall, albeit at a lower margin to reflect the lower proportion of output from the CIL plant, compared with previously. As a result, we have reduced our forecast for profit attributable to shareholders by 12.8% in FY19 (see Exhibit 1), although this is more than offset by a lower anticipated weighted average number of shares in issue in the period (see Financials, below), owing to the effect of a higher prevailing Auriant share price applied to future financing assumptions, such that our forecast for EPS is now 15.2% higher than at the time of our [Outlook note](#) in early March.

Tardan CIL progress update

As implied by its reduced production forecast for FY19, the Tardan CIL project is reported to be running slightly behind schedule. Nevertheless, it has been passed by the State Ecological Expertise, which means the plant complies with Russian Federation environmental protection standards. As of early December, the project was reported to be c 60% complete, including the metal frame (>80% complete), the foundations for heavy equipment (100% complete), the supplementary buildings (90% complete), the coal heating station (100% complete) and a new high voltage line (100% complete), such that it is now expected to enter production in July 2019 (versus late Q119/early Q219 previously).

Financials

Auriant had net debt of US\$70.7m at end-September 2018 (versus net debt of US\$70.2m at end-December 2017) after having raised US\$3.2m (net) via the exercise of warrants at SEK2.50/sh in March. In November 2018, it also reached a further agreement with Golden Impala (a vehicle of its majority shareholder) for a new revolving bridging loan facility of US\$3m to provide short-term working capital during the low production season (Q418–Q119, inclusive) and to secure continuous funding of the CIL project). Assuming it raises an additional US\$13.8m in cash (to bring the total to US\$17.2m gross, as per our [Outlook note](#) in March) via an equity funding at the prevailing share price of SEK2.14/sh in early FY19, all other things being equal, we would then anticipate Auriant's net debt to evolve as shown in Exhibit 2, before being eliminated in FY25:

End-year	FY17	FY18e	FY19e	FY20e	FY21e	FY22e	FY23e	FY24e
Net debt (current)	70.2	71.8	55.3	71.2	108.9	87.2	43.6	2.1
Net debt (previous)	70.2	58.5	44.9	60.8	97.8	75.3	31.0	0.0

Source: Edison Investment Research

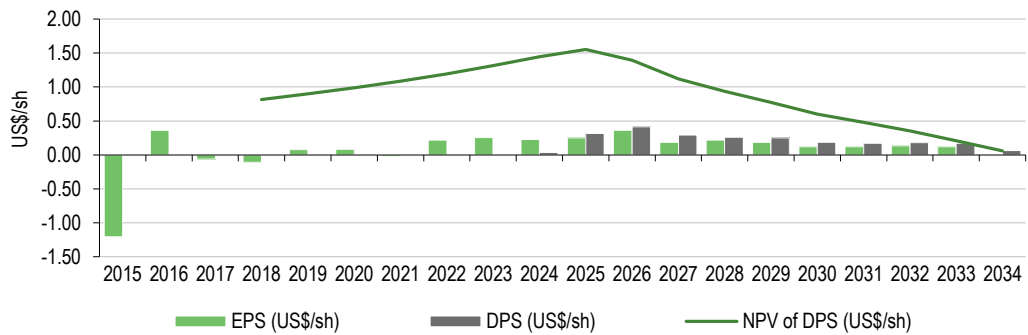
Note the forecast increase in net debt between FY19-21 as Kara-Beldyr is brought into production. At its maximum of US\$108.9m, our estimate of Auriant's maximum net debt requirement at end-FY21 equates to a leverage ratio (net debt/[net debt+equity]) of 92.0%.

Valuation

In common with its 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 plan, we estimate that Auriant is capable of generating average cash-flows of US\$37.3m, average earnings of US\$31.2m and average EPS of 20.0 cents (versus 16.7c previously) in the 12-year period from FY22–33 (inclusive), thus allowing it to pay maximum potential dividends to shareholders in the order of 24.0c per share (versus 20.6c/sh previously) in the period FY25–33 (inclusive). Discounted at our customary 10% discount rate, such a stream of dividends has a value of US\$0.82 per share (cf US\$0.72/sh previously), as shown in Exhibit 3 below, rising to US\$1.55/share in FY25 (cf US\$1.29/share previously) on the cusp of the company's first substantive potential dividend in FY25:

Exhibit 3: Auriant forecast EPS and maximum potential DPS, FY15–FY33e



Source: Edison Investment Research

Exhibit 4: Financial summary

	US\$'000s	2015	2016	2017	2018e	2019e	2020e	2021e	2022e
December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		33,429	43,380	33,532	18,291	45,070	45,077	46,005	124,600
Cost of Sales		(19,360)	(19,391)	(25,061)	(18,284)	(22,557)	(20,569)	(37,298)	(68,470)
Gross Profit		14,069	23,989	8,471	7	22,513	24,508	8,707	56,130
EBITDA		10,242	21,987	8,846	(2,645)	19,696	21,191	5,390	52,813
Operating Profit (before amort. and except.)		919	15,416	2,487	(7,392)	15,457	17,312	1,840	42,699
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	(1,350)	0	0	0	0
Operating Profit		(13,297)	15,416	3,410	(8,742)	15,457	17,312	1,840	42,700
Net Interest		(7,081)	(7,577)	(5,567)	(3,768)	(5,748)	(4,422)	(5,696)	(8,710)
Profit Before Tax (norm)		(6,162)	7,839	(3,080)	(11,160)	9,709	12,890	(3,856)	33,989
Profit Before Tax (FRS 3)		(20,378)	7,839	(2,157)	(12,510)	9,709	12,890	(3,856)	33,990
Tax		(1,116)	(1,355)	(28)	2,260	0	0	0	0
Profit After Tax (norm)		(7,278)	6,484	(2,081)	(10,250)	9,709	12,890	(3,856)	33,989
Profit After Tax (FRS 3)		(21,494)	6,484	(2,185)	(10,250)	9,709	12,890	(3,856)	33,990
Average Number of Shares Outstanding (m)		17.8	17.8	35.6	92.7	127.6	156.5	156.5	156.5
EPS - normalised (c)		(40.9)	36.4	(5.8)	(11.1)	7.6	8.2	(2.5)	21.7
EPS - normalised and fully diluted (c)		(35.8)	35.1	(5.7)	(11.0)	7.6	8.2	(2.5)	21.6
EPS - (IFRS) (c)		(120.7)	36.4	(6.1)	(11.1)	7.6	8.2	(2.5)	21.7
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	0.0	50.0	54.4	18.9	45.0
EBITDA Margin (%)		30.6	50.7	26.4	-14.5	43.7	47.0	11.7	42.4
Operating Margin (before GW and except.) (%)		2.7	35.5	7.4	-40.4	34.3	38.4	4.0	34.3
BALANCE SHEET									
Fixed Assets		56,192	53,684	49,397	53,688	58,637	87,296	122,284	119,709
Intangible Assets		32,197	32,638	30,183	31,221	32,259	33,297	34,335	35,373
Tangible Assets		23,995	21,046	19,214	22,467	26,378	53,999	87,949	84,336
Investments		0	0	0	0	0	0	0	0
Current Assets		10,460	17,062	19,102	8,125	23,521	11,443	11,648	29,054
Stocks		4,833	7,883	7,425	3,658	7,512	7,513	7,668	20,767
Debtors		2,272	186	5,148	3,007	2,470	2,470	2,521	6,827
Cash		43	4,173	5,069	0	12,079	0	0	0
Other		3,312	4,820	1,460	1,460	1,460	1,460	1,460	1,460
Current Liabilities		(36,001)	(34,149)	(6,179)	(4,250)	(3,429)	(3,266)	(4,641)	(7,203)
Creditors		(5,901)	(3,537)	(2,005)	(2,076)	(3,429)	(3,266)	(4,641)	(7,203)
Short term borrowings		(30,100)	(30,612)	(4,174)	(2,174)	0	0	0	0
Long Term Liabilities		(70,307)	(66,995)	(82,054)	(80,627)	(78,306)	(82,160)	(119,835)	(98,114)
Long term borrowings		(61,366)	(58,117)	(71,098)	(69,671)	(67,350)	(71,204)	(108,879)	(87,158)
Other long term liabilities		(8,941)	(8,878)	(10,956)	(10,956)	(10,956)	(10,956)	(10,956)	(10,956)
Net Assets		(39,656)	(30,398)	(19,734)	(23,064)	423	13,313	9,457	43,446
CASH FLOW									
Operating Cash Flow		6,347	19,359	9,751	1,984	17,733	21,026	6,559	37,969
Net Interest		(7,081)	(7,577)	(5,567)	(3,768)	(5,748)	(4,422)	(5,696)	(8,710)
Tax		(13)	(27)	(79)	2,260	0	0	0	0
Capex		(118)	(2,391)	(3,025)	(9,038)	(9,188)	(32,538)	(38,538)	(7,538)
Acquisitions/disposals		0	0	0	0	0	0	0	0
Financing		49	(10)	5,424	3,173	13,777	0	0	0
Dividends		0	0	0	0	0	0	0	0
Net Cash Flow		(816)	9,354	6,504	(5,390)	16,574	(15,934)	(37,675)	21,721
Opening net debt/(cash)		90,607	91,423	84,556	70,203	71,845	55,271	71,204	108,879
HP finance leases initiated		0	0	0	0	0	0	0	0
Other		0	(2,487)	7,849	3,748	0	0	(0)	0
Closing net debt/(cash)		91,423	84,556	70,203	71,845	55,271	71,204	108,879	87,158

Source: Company sources, Edison Investment Research

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