

# Polymetal

## Analyst and Investor day takeaways

- Polymetal International (LSE:POLY) provided update on its core projects Kyzyl, Amursk POX, and Nezhda during its Investor day.** Polymetal confirmed its strategic goals to deliver sustainable dividend and ensure profitable growth. The dividend comes first, according to the Group CEO Vitaly Nesis, followed by the expansion program to maintain the growth pipeline. The company paid \$0.37 per share in 2016, and \$0.32 per share in 1H17. The next special dividend may be announced in February 2018. Major expansion projects are Kyzyl project in Kazakhstan, debottlenecking in Russia including Amur POX expansion, and Nezhda project, once the company decides to execute the option to acquire the control in it. The main Polymetal production targets of 1.4moz GE in 2017 and 1.8moz GE in 2020 were confirmed, as well as on track execution of Kyzyl, which should contribute into the growth. Kyzyl construction is from 70% to 95% completed, except for railway siding with fuel storage. The unit cost of stripping and heap re-handling are below planned levels due to the cheaper utilized equipment. There is a cost upside versus the feasibility study, according to the management. The company already spent on the project \$217mn and remaining cost is \$101mn (as of 01/07/2017). The concentrate sale contracts for Kyzyl are expected to be signed with partners from China in 1Q18. The management confirms robust economics of Kyzyl with \$488/oz ECC and \$518/oz AISC that implies 33% IRR at \$1200/oz gold price and \$750mn NPV. Another important project is Amursk POX debottlenecking, which should add hydrometallurgical plant and oxygen plant capacities as well as additional infrastructure. The total remaining cost is \$29mn out of the total \$61mn. Nezhda, the fourth largest Russian gold deposit, is a promising asset for Polymetal. The deposit with 2moz of GE at 4g/t has at least 8.9moz upside at 5g/t grade. Nezhda will have 150koz of gold annual production capacity with 11 years open pit followed by underground production. The project is estimated at \$249mn, including open pit, flotation and pre-stripping. The estimated cost is \$590-640/oz TCC and \$650-710/oz AISC. The NPV of the project is \$132mn. Polymetal has 24.7% in this project. Polymetal has purchased an option to buyout the remaining 75.3% stake at \$12mn premium, according to which it has the right to acquire the remaining stake for \$100/oz of attributable JORC reserves (or \$75.3/oz of total reserve ounces). The consideration is within \$105-180mn, capped at the top. The probability of the option execution is high, according to the management. The production may start in 1H2022, if the stake purchased, however, Nezhda project will not be executed until the Kyzyl ramp up completion. Another growth potential is in Prognoz project, the largest undeveloped primary silver deposit in Russia. Polymetal owns 5% stake in it and has an option to increase its stake up to 50% until 2Q2020. The mineral resources of Prognoz are 292moz at 586 g/t silver, 3% lead. The production at Prognoz is expected at 20moz of silver per year. The estimated capex is \$250mn. The total capex of Polymetal is \$370mn in 2017, \$370mn in 2018, and \$300mn in 2019, including all major expansion projects.
- Projects pipeline support the investment case.** The project portfolio of Polymetal is well diversified to provide at least stable production. The company will likely to rebalance the asset portfolio selling some of non-desirable assets already in 2018. Another flexibility will be achieved via rebalancing the volumes of concentrate sold to China versus the processing of third parties concentrate at own capacities. According to the Group CEO, the processing of the third parties concentrate brings healthy margin. Overall, the company builds a pipeline of projects with rather attractive grade per reserves and low risk profile, based on already reported JORC reserves. The option execution price may leave little upside, however the stable cash flow will likely be a trade-off. That strategy is in line with the company's position to focus on a stable cash flow and dividend payout.

**Report date: 14 November 2017**

Main exchange	LSE
Rating	BUY
Current Price, GBp	905
12M Target price, GBp	1040
Current MCap, \$ mn	5,097
Free float, %	59%

**Description:**

Polymetal International is a leading silver and gold producer with assets in Russia, Armenia, and Kazakhstan. The company is listed on LSE and is a part of FTSE-250. Polymetal has an impressive pipeline of projects under developments and targets essential production growth in 2017-2020. The company meets high ESG standards, being top ranked among its peers by Sustainalytics, RobecoSAM and others.

---

Marina Alekseenkova  
Research analyst  
+44 (0) 78527 00371  
ma@hypothesisresearch.co.uk

---

# Important disclosures

## Analysts certification and disclaimer

This report has been prepared and issued by Hypothesis Research Limited ("Hypothesis") in accordance with Hypothesis policies for managing conflicts of interest arising as a result of publication and distribution of investment research. Hypothesis is authorised and regulated by the Financial Conduct Authority ("FCA"). This report has been prepared by the analyst whose name appears on the front page of this report.

The information contained within the report is intended for use by professional clients and eligible counterparties as defined in section 3 of the FCA Conduct of Business rules. Our research must not be acted on or relied upon by persons in the UK who would be categorised as retail clients.

The report must not be distributed in any other jurisdictions where its distribution may be restricted by law. Persons into whose possession this report comes into should inform themselves about, and observe, any such restrictions.

All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of Hypothesis and the analyst at the time of publication.

Hypothesis does not offer or provide personalised advice. The information provided is not intended to be, and should not be construed in any manner whatsoever as, personalised advice as it does not have regard to the specific investment objectives, financial situation and particular needs of any specific person who may receive this report. The information provided by us should not be construed by any subscriber or prospective subscriber as Hypothesis' solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned in this report. Investors should make their own investment decisions based upon their own financial objective and resources.

Hypothesis has a restrictive policy relating to personal dealing. Hypothesis, its respective directors, officers, employees and contractors do not hold any positions in the securities mentioned in this report. Hypothesis may perform services or solicit business from any of the companies mentioned in this report.

The value of securities mentioned in this report can fall as well as rise and may be subject to large and sudden swings. In addition, it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations.

To the maximum extent permitted by law, Hypothesis, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication.

Please find further information and disclaimer on <http://www.hypothesisresearch.co.uk/disclaimer>.