

Polymetal

Company update

- Polymetal International (LSE: POLY) published FY2017 financial results.** The company reported 15% YoY revenue increase to \$1,815mn in FY17, driven by 13% YoY production growth. Gold sales were up 24% YoY to 1,090 koz; silver sales were down 14% to 25.6 moz. According to the production report, GE production growth was due to the ramp-up at Svetloye and good performance of Varvara hub, Omolon, and Amursk-Albazino. The average realized gold price was up 2.5% YoY to \$1,247/oz, and silver price was \$16.1/oz, down 1.2% YoY. The company's total cash cost increased 15% YoY to \$658/GE oz in FY17, driven by the Russian ruble appreciation (from 67.1RUB/\$ in 2016 to 58.3RUB/\$ in 2017). All-in sustaining cash costs (AISC) also increased 15% YoY to \$893/GE oz. Polymetal reported adjusted EBITDA at \$745mn, down 2% YoY in FY17. The total cash cost rose 28% YoY at Albazino and Dukat due to decreasing grade and by 30% at Omolon. On-mine costs rose 30% YoY, mostly driven by services costs (+38% YoY) and labour costs (+21% YoY). The increased production at Varvara hub allowed to reduce the cash cost by 10% YoY. Kapan also demonstrated cost decline by 3% YoY. The financial position of the company is stable with net debt at \$1.42bn and Net debt/EBITDA at 1.9x at the end of 2017. The cost of debt, nominated in USD, is 4%. Overall, results came in line with our expectations, slightly higher at top line (our FY17 revenue forecast was \$1799mn), and weaker at operating profit level (our forecast was \$542mn compared to \$510mn reported). The company announced the final dividend at \$0.3 per share that results in the total dividend for the year at \$0.44 per share. The company's total payout to shareholders will reach \$189mn, with the dividend yield at 3.7% based on average price for the year.
- Kyzyl is the critical deliverable in 2018.** Polymetal signed offtake agreement for Kyzyl concentrate earlier this year, which the management valued as a positive for the company cash flow. Kyzyl and POX debottlenecking shall be fully completed and contribute to production results in 3Q18. The re-commissioning of the oxide circuit at Mayskoye and improvements at Varvara and Kapan will improve the production profile. We believe the company can deliver the planned production growth to 1550koz (up 8.1% YoY), and the sale 50% in Dolinnoe will not affect the production plan. TCC guidance for FY18 is \$650-700/oz of GE and AISC'18 is \$875-925/oz GE. The company sets the cost guidance in line with 2017 for TCC and slightly higher for AISC. The RUB/USD exchange rate is an important variable, and it will likely stay close to 60 RUB/USD, in line with the company's forecasts. Polymetal budgets capital expenditures at \$400mn for 2018 compared to \$383mn in 2017. Kyzyl capex will go down from \$156mn in 2017 to \$100mn in 2018, while POX-2 and Nezhda financing will add \$60mn to the company's expansion capex. Stay-in-business capex will go down from \$169mn in FY17 to \$155mn in FY18. Overall guidelines are in line with the previous announcements. Nezhda acquisition is essential for the sustainability of Polymetal portfolio. The asset may be operational in mid-2021. Prognoz (silver) and Viksha can be operational in 2024, also supporting the production profile of Polymetal.
- The gold demand remains the key variable.** The recent reports from India and China confirm a weak demand compared to the previous year. The Russian Central Bank ranked as one of the largest buyers in 2018. Meanwhile, most of the Russian gold companies are planning production expansion by 4% pa on average in 2018. The growing cost base shall be more balanced after Kapan and Kyzyl are operational. Our updated model still show a solid financial performance for 2018-2019, based on company's production targets and fixed Ruble/US dollar exchange rate. We adjust our price target to 783GBP (based on 1.39 USD/GBP exchange rate compared to 1.31 USD/GBP used before), based on the updated model, mostly due to higher cash cost curve and stronger GBP vs USD. We re-iterate Hold rating.

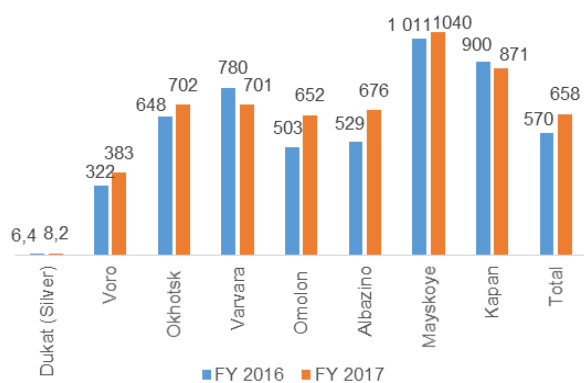
Report date:	15 March 2017
Main exchange	LSE
Rating	HOLD
Current Price, GBp	754
12M Target price, GBp	783
Current MCap, \$ mn	4567
Free float, %	59%

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.

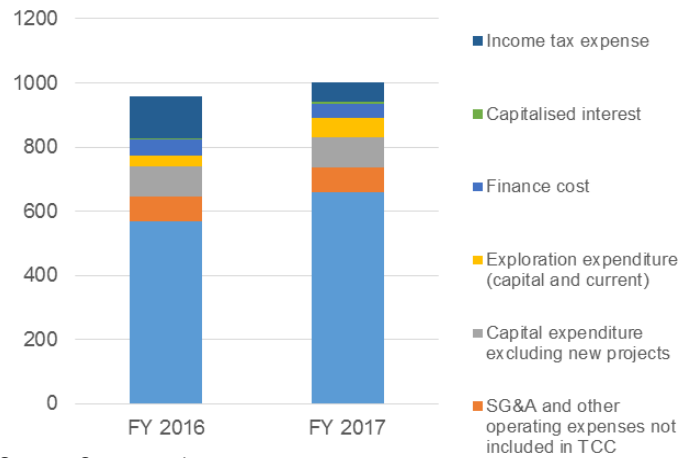
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Figure 1. Polymetal total cash cost, \$/GE oz



Source: Company data

Figure 2. Polymetal after-tax All-in cash cost, \$/oz



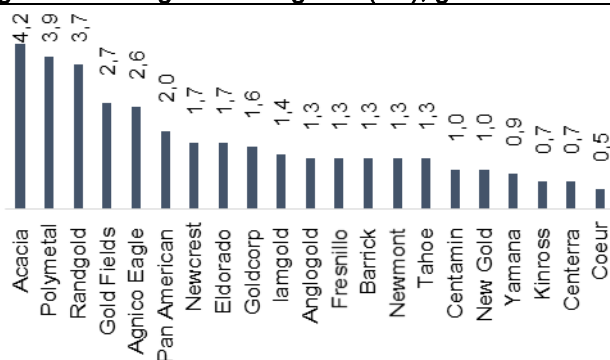
Source: Company data

Figure 3. Polymetal mineral reserves and mineral resources

	1 Jan 2017	1 Jan 2018
Ore Reserves (Proved + Probable), gold equivalent Moz	19,8	20,9
Gold, moz	17,6	18,4
Silver, moz	163,0	158
Copper, kt	65,4	81,6
Zinc, kt		85,8
Average reserve grade, g/t	3,8	3,9
Mineral resources (measured+indicated+inferred), gold equivalent moz	16,5	18,2
Gold, moz	14,4	15,7
Silver, moz	87,5	109,1
Copper, kt	206,7	147,9
Zinc, kt		221,8
Average resource grade, g/t	4,2	4,7

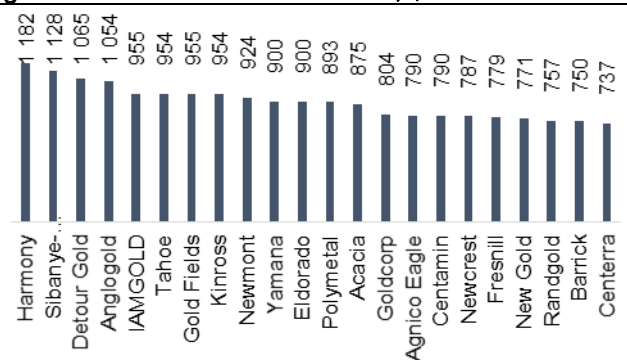
Source: Company data

Figure 4. Average reserve grade (20), g/t



Source: Company data

Figure 5. AISC cash costs for 2017, \$/oz



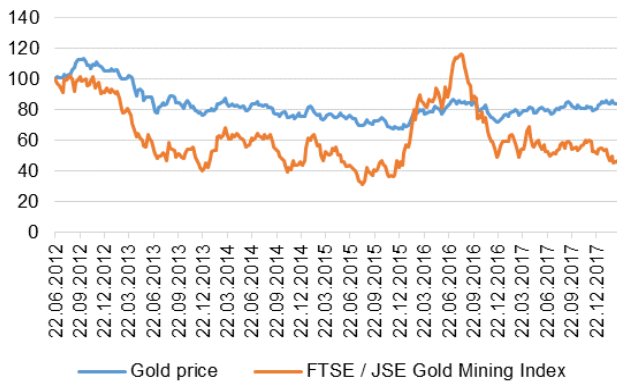
Source: Company data

Figure 6. Polymetal financial statistics

Income statement						Statements of cash flows					
\$mn	FY15	FY16	FY17	FY18	FY19	\$mn	FY15	FY16	FY17	FY18	FY19
Revenue	1441	1583	1815	2009	2344	Net cash generated by operating activities	491	530	533	659	803
Cost of sales	-766	-825	-1106	-1192	-1349	Net cash used in investing activities	-300	-401	-477	-168	-284
Write-down to net realisable value	-13	-21	0	0	0	Net cash generated by financing activities	-274	-134	-67	-368	-372
Gross profit	662	737	709	818	995	Net (decrease)/ increase in cash and cash equivalents	-83	-5	-11	124	148
SG&A	-127	-120	-158	-175	-195	Cash and cash equivalents, BOP	157	52	48	36	160
Other expenses	-55	-36	-41	-47	-52	Effect of foreign exchange rate changes	-22	1	-1	0	0
Operating profit	480	581	510	596	749	Cash and cash equivalents, EOP	52	48	36	160	307
Non-operating income/expenses	-204	-17	-67	-71	-72	Capex	224	288	370	310	250
Profit/Loss before income tax	276	564	443	525	676	Dividends					
Income tax expense	-55	-169	-89	-105	-136	Dividends	1	0	189	252	351
Profit/Loss for the period	221	395	354	419	541	Net debt	1298	1330	1420	1417	1290
EBITDA	658	759	761	830	998						
Balance sheets						Ratios					
USD mn	FY15	FY16	FY17	FY18	FY19		FY15	FY16	FY17	FY18	FY19
Property, plant and equipment, net	1360	1805	2054	2190	2250	Gross margin, %	46%	47%	39%	41%	42%
Goodwill	14	17	18	18	18	Operating margin, %	33%	37%	28%	30%	32%
Investments in associates and joint ventures	2	25	96	96	96	Net margin, %	15%	25%	20%	21%	23%
Non-current loans	13	10	15	15	15						
Deferred tax asset	57	38	61	61	61	Revenue growth	-15%	10%	15%	11%	17%
Non-current inventories	99	113	123	133	150	Net profit growth		79%	-10%	18%	29%
Total non-current assets	1544	2008	2367	2512	2590	EBITDA growth	-4%	15%	0%	9%	20%
Total current assets	537	721	761	945	1201	Capex growth, %	7%	29%	28%	-16%	-19%
Total assets	2081	2729	3128	3457	3792	Payout ratio	0%	0%	53%	60%	65%
Total current liabilities	-420	-287	-214	-233	-263						
Long-term debt	-1063	-1280	-1430	-1544	-1563	EBITDA / Interest coverage	8,1	12,0	12,1	11,6	13,8
Derivatives	0	0	0	0	0	Net debt/EBITDA	2,0	1,8	1,9	1,7	1,3
Contingent consideration liability	-24	-62	-57	-57	-57	Net debt/Equity	2,7	1,4	1,1	0,9	0,7
Deferred tax liability	-50	-78	-77	-85	-99	Revenues/Assets	0,7	0,6	0,6	0,6	0,6
Environmental obligations	-33	-37	-39	-39	-39	Capex/ EBITDA	0,3	0,4	0,5	0,4	0,3
Other non-current liabilities	-5	-4	-4	-4	-4	RoCE	26,1%	24,6%	18,5%	19,4%	22,3%
Total non-current liabilities	-1175	-1461	-1607	-1729	-1763	FCF yield	5,9%	5,4%	3,6%	7,8%	12,3%
Total liabilities	-1595	-1748	-1821	-1962	-2026	RoIC	12%	17%	6%	5%	6%
Net assets	487	981	1307	1496	1766	ROE	45%	40%	27%	28%	31%
Total equity	487	981	1307	1496	1766						
Total liabilities and shareholders' equity	2081	2729	3128	3457	3792						

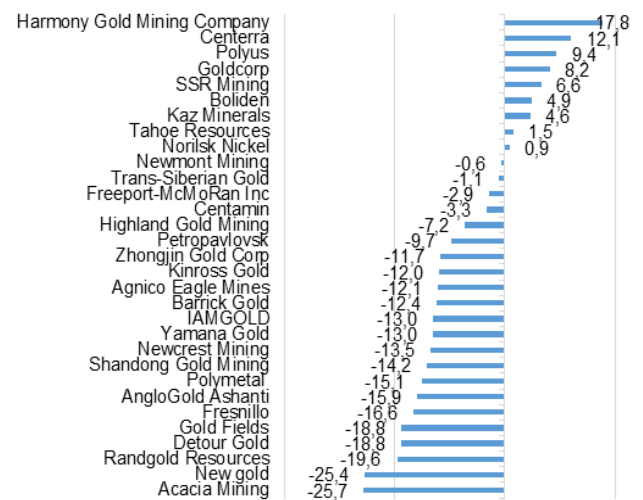
Source: Company data, Hypothesis Research estimates

Figure 7. Gold price and FTSE / JSE Gold Mining Index



Source: Thomson Reuters

Figure 8. Gold stocks performance Ytd



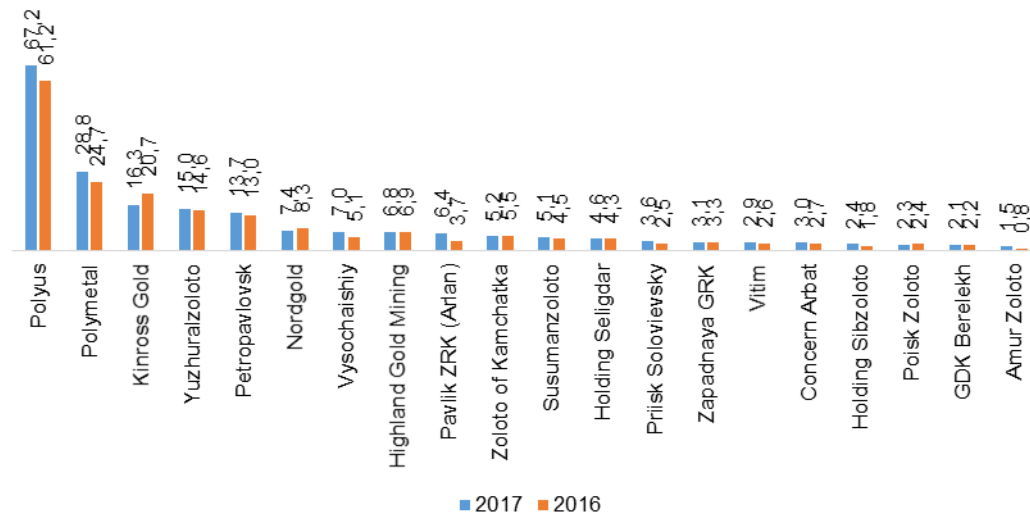
Source: Thomson Reuters

Figure 9. Comparable multiples for the gold sector

Company	MktCap, \$mn	EV, \$mn	P/E Fwd 1Y	P/E Fwd 2Y	P/E Fwd 3Y	EV/ EBITDA 1Y fwd	EV/ EBITDA 2Y fwd	EV/ EBITDA 3 fwd	EV/ Sales 1y fwd	EV/ Sales 2y fwd	EV/ Sales 3y fwd
Polymetal	4683	6103	11,0	9,1	7,7	7,2	5,9	5,1	3,0	2,7	2,4
Polyus	11251	14430	9,5	7,5	7,8	7,8	6,2	6,8	4,7	3,7	4,0
Alrosa	11750	13298	7,4	6,9	4,9	5,8	5,6	4,5	2,8	2,6	2,3
Gold Fields	3070	4499	18,5	14,7	13,7	3,6	3,0	3,3	1,6	1,4	1,4
Norilsk Nickel	30162	38630	8,8	9,0	9,4	6,9	7,1	6,6	3,4	3,4	3,2
Sibanye Gold	2110	4375	8,9	6,1	4,8	4,4	3,9	3,1	1,0	0,9	0,9
Barrick Gold	14238	20208	15,5	16,5	18,7	5,4	5,9	6,0	2,6	2,6	2,7
Agnico Eagle Mines	9112	9703	57,6	38,3	25,6	11,2	9,5	7,5	4,5	4,1	3,4
AngloGold Ashanti	3737	5875	10,9	9,3	7,6	3,7	3,7	3,2	1,4	1,4	1,3
Goldcorp	11523	14223	29,9	18,0	16,8	8,3	6,0	5,9	4,0	3,1	3,1
Kinross Gold	4557	5300	22,3	21,2	24,3	4,4	4,2	4,1	1,6	1,6	1,6
Newmont Mining	19904	21669	26,5	23,3	24,0	8,2	7,8	8,1	2,9	2,9	3,0
Yamana Gold	2478	4393	26,4	18,7	14,2	5,5	5,4	5,3	2,2	2,1	2,1
IAMGOLD	2297	1950	58,2	39,9	23,5	5,0	4,7	3,8	1,7	1,6	1,4
Newcrest Mining	11808	13316	37,6	16,0	14,6	10,1	6,7	6,7	3,8	3,1	3,1
Randgold Resources	7828	7385	23,9	23,0	23,0	10,4	10,3	10,1	5,6	5,5	5,5
Shandong Gold Mining	7860	9432	34,0	26,4	20,6	12,1	10,8	9,3	1,1	1,1	1,1
Zhongjin Gold Corp	4767	7218	73,4	50,2	48,8	14,5	14,1	14,6	1,2	1,3	1,3
Freeport-McMoRan Inc	26695	38684	8,7	12,8	9,7	4,8	6,4	5,2	2,1	2,4	2,1
Fresnillo	12246	12224	24,5	22,5	18,7	9,9	9,0	6,7	5,2	4,9	Na
Kaz Minerals	5828	7886	8,9	8,3	7,7	5,6	5,3	5,4	3,4	3,3	3,2
Boliden	9839	10189	10,5	10,9	11,7	5,7	5,8	6,0	1,6	1,6	1,6
Global peer average			26,8	20,8	19,0	7,9	7,2	6,8	2,8	2,7	2,5
Russian peer average			11,8	11,2	11,6	6,2	5,8	5,5	3,1	2,8	2,8
Polymetal (discount)/ premium to global peers			-59%	-56%	-59%	-9%	-18%	-25%	7%	0%	-4%
Polyus (discount)/premium to global peers			-64%	-64%	-59%	-1%	-14%	-1%	67%	40%	64%
Polymetal (discount)/ premium to Russian peers			-7%	-18%	-33%	15%	2%	-7%	-3%	-6%	-15%
Polyus (discount)/premium to Russian peers			-19%	-33%	-33%	25%	7%	23%	51%	32%	45%

Source: Thomson Reuters

Figure 10. Top-20 gold producers in Russia (73% of total output from mineral feedstock), t



Source: Association of gold producers of Russia

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