

## BCP Research: Petropavlovsk (POGLN - /B-/B-) - Preliminary Agreement for the Disposal of a Stake in IRC and Termination of IRC Guarantees

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*Summary: On March 18, 2020, Petropavlovsk (-/B-/B-), a Top-5 Russian gold miner, announces that it has preliminary agreed with Stocken Board AG, a Liechtenstein-incorporated investment company, on a sale of its 29.9% stake in IRC Ltd (of Petropavlovsk's 31.1% shareholding), including the release of Petropavlovsk obligation to guarantee IRC's loan facilities with Gazprombank, among other requirements.*

*Bonds have returned nearly 55% since our initial 'Positive – Outright' rating on January 9th 2019. Despite continued positive developments, at a current mid of 141c vs. fair value of 184c and bond floor of 90c (30% upside v. 36% downside), we downgrade POGLN 8.25% 24s to 'Neutral', choosing to focus elsewhere in our coverage universe.*

	Amount US\$ MM		Rating	Price Mid	Yield Mid %
POGLN 8.125% 11/14/2022	\$500		- /B-/B-	92.5	11.49%

  

	Amount US\$ MM	Mid Price	Mid YTW	Ranking	Cheapness	Implied Vol	Delta	Conv. Price	POG LN Stock Price
POGLN 8.25% 07/03/2024	\$125	141.0	(1.10%)	Sr. Unsec	23.37%	n/a	99.98%	\$0.14	\$0.15

Source: Equity information sourced from Bloomberg. Convertible pricing as of March 19<sup>th</sup> 2020.

This preliminary agreement includes the proposed terms on which Stocken would agree to purchase from Petropavlovsk a 29.9% stake in IRC for a cash consideration of US\$10 mm  
 Under the terms of the guarantees and related agreements, Petropavlovsk requires the consent of Gazprombank (GPB) to enter into a binding share sale and purchase agreement (SPA) in relation to the IRC shares  
 If the consent of GPB is received and the parties enter into a SPA, completion of that SPA will be conditional upon:

- Termination and irrevocable release of Petropavlovsk from all loan guarantees given to GPB under the facility agreements signed between Kimkano-Sutarsky Mining and Beneficiation Plant LLC, a subsidiary of IRC and GPB in December 2018; and
- The receipt of any consents that may be required under Petropavlovsk's US\$500 mm 8.125% Eurobond maturing in November 2022, or confirmation by the Board that none are required

A cash consideration of US\$10 mm is payable by Stocken for the 29.9% shareholding up to 31 December 2021. Following the transaction, Petropavlovsk's remaining share in IRC will be ~1.2%

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### REGULATION AC - ANALYST CERTIFICATION

We, Megan McDonald and Matias Castagnino, CFA, certify that all of the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by us in this report.

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#### **Top Picks Universe**

"Market Outperform" – The bond's total return is expected to exceed the total return of the J.P. Morgan Corporate Emerging Markets Bond Index series ("CEMBI") Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Perform" – The bond's total return is expected to be in line with the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Market Underperform" – The bond's total return is expected to be below the total return of the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's total return relative to the CEMBI Broad Diversified High-Yield Index over the next 3 – 6 months.

#### **Quasi Sovereign Universe**

"Market Overweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to decrease over the next 3 – 6 months.

"Market Weight" – The spread of the bond to its similarly duration sovereign controller bond is expected to remain unchanged over the next 3 – 6 months.

"Market Underweight" – The spread of the bond to its similarly duration sovereign controller bond is expected to increase over the next 3 – 6 months.

"Not Rated" or no comment – Currently, the analyst does not have adequate conviction about the bond's spread to its similarly duration sovereign controller bond over the next 3 – 6 months.

#### **High Octane Universe**

"Speculative Buy" – Bonds that in our view have an equity investment risk profile and we think risk/return is significantly skewed to the upside

"Positive" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the upside

"Neutral" – Bonds that in our view have an equity investment risk profile and we think risk/return is balanced

"Negative" – Bonds that in our view have an equity investment risk profile and we think risk/return is skewed to the downside

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