BCP Research: Endeavor Mining Limited (EDVCN) - 1Q20 Results - Attractive Swap Candidate

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Summary: West African mid cap (US$2.6 bn) gold mining company, Endeavor Mining Limited ("Endeavor"), reported positive 1Q20 results, with improved y/y revenues and EBITDA, and robust 48% EBITDA margins, on the back of higher production. Production fell in line with the lower end of FY20 production guidance at a run-rate of 688 koz and is expected to ramp up in the second half of the year. The company anticipates AISC of US$899/oz in 1Q20 will gradually fall within its guided FY20 range (US$845-895) as production increases and capex declines. Capex was notably higher sequentially due to heavier exploration during the 1H20 dry season. Nevertheless, free cash flow was positive for the third sequential quarter at US$53 mm. The company drew down its US$120 mm RCF in the quarter which, alongside improved cash flows, resulted in increased cash equivalents of S$357 mm, while LTM net leverage reached lows of 1.1x.

While we appreciate the consistent FCF generation seen over the past three quarters, upside on the convert appears limited. Shares trade slightly below the strike price of US$23.90 and, at 5.7x TEV to 2020 BBG consensus EBITDA of US$565 mm, appear expensive relative an average 4.6x TEV for our peer group of EM precious metal miners (TEV as of close 5/20/20). We estimate credit spread of 400 bps for the issuer which, together with vol capped at 50% implies fair value of 124 vs 114c mid and a bond floor of 97c (8% up v. 15% down). Implied vol of 26% on the convert is attractive on the swap vs. 100D realized of 69% and 40% in the options market.

On an outright basis, we prefer to focus timelier opportunities offering in the convertibles universe, such as Caribbean telecom operator, LILAK. We currently rate LILAK 24s "Market Outperform" on our Top Picks, based on strong operational performance, which has yet to be reflected in its 70c bond price – bonds yield 11% and, trading below the bond floor, offer a virtually free option on the equity – relative to its direct subsidiaries who trade around par (please contact your salesperson for more detail).

	Amt Out (US$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	EDV CN Price (USD)
EDVCN 3% 02/15/23	330	114.0	(1.98%)	26.33%	7.55%	70.09%	23.90	$22.92

** Source: Equity information sourced from Bloomberg. Convertible pricing as of May 21st 2020.*

Credit Valuation:

	Endeavor Mining	AngloGold Ashanti	Sibanye-Stillwater *	Sibanye Gold Limited *	Petropavlovsk
Country	South Africa	South Africa	South Africa	" "	Russia
Rating	-/ -/ -	Baa3/ BB+/ -	-/ -/ -	" "	-/ -/ -
Bond Ticker	**EDVCN**	**ANGSJ**	**SGLSJ**	**" "**	**POGLN**
Coupon	**3.00%**	**5.13%**	**1.88%**	**" "**	**8.25%**
Maturity	**2/15/2023**	**8/1/2022**	**9/6/2023**	**" "**	**7/3/2024**
Currency	USD	USD	USD	" "	USD
Amt Out (US$MM)	**330**	**750**	**384**	**" "**	**125**
Maturity Type	Convertible	Bullet	Convertible	" "	Convertible
Rank	Sr Unsecured	Sr Unsecured	Sr Unsecured	" "	Sr Unsecured
Equity Ticker	EDV CN	AU US	SSW SJ	" "	POG LN
Share px @ 5/20/20	**$23.64**	**$26.71**	**$2.23**	**" "**	**$0.31**
Shares Outstanding	110	418	2,675	" "	3,310
Market Cap (US$MM)	**2,598**	**11,166**	**5,965**	**" "**	**1,032**
Preferred Shares and Other	95	32	90	" "	11
Net Debt	536	1,748	1,322	" "	564
TEV (US$MM)	**3,229**	**12,946**	**7,377**	**" "**	**1,607**

** Sibanye-Stillwater bond and equity. Financials reflect standalone results of gold operations at subsidiary, Sibanye Gold Limited*
Source: Equity information sourced from Bloomberg as of close May 20th 2020.

Credit Valuation (continued):

	Endeavor Mining	AngloGold Ashanti	Sibanye-Stillwater *	Sibanye Gold Limited *	Petropavlovsk
	2019	2019	2019	2019	LTM 1H19
Gold Produced ('000 oz)	**651**	**2,862**	**933**	**933**	**446**
4E PGM Produced ('000s oz)	**-**	**-**	**2,202**	**-**	**-**
Revenue	**886**	**3,525**	**5,043**	**1,299**	**534**
EBITDA	**351**	**1,198**	**1,043**	**(65)**	**165**
EBITDA margin	*40%*	*34%*	*21%*	*-5%*	*31%*
Interest paid	(33)	(137)	(111)	n/a	(67)
Capex	(233)	(703)	(533)	(143)	(112)
Taxes paid	(66)	(228)	(97)	n/a	(22)
Free Cash Flow (before WK & finance lease obligations)	**18**	**130**	**302**	**n/a**	**(36)**
Working capital	8	(18)	(43)	n/a	39
Finance and lease obligation	(24)	(42)	(9)	n/a	(3)
Free Cash Flow (before WK & finance lease obligations)	**3**	**70**	**250**	**n/a**	**0**
Gross Debt	**726**	**2,204**	**1,723**	**n/a**	**603**
Cash	190	456	401	" "	39
Net Debt	**536**	**1,748**	**1,322**	**" "**	**564**
LTM Gross Leverage	**2.1x**	**1.8x**	**1.7x**	**" "**	**3.7x**
LTM Net Leverage	**1.5x**	**1.5x**	**1.3x**	**" "**	**3.4x**
TEV/EBITDA	**9.2x**	**10.8x**	**7.1x**	**" "**	**9.7x**
2020 BBG Consensus:					
Revenue	1,172	4,097	6,256	" "	1,037
EBITDA	565	1,916	2,423	" "	404
EBITDA margin	*48%*	*47%*	*39%*	*" "*	*39%*
TEV/EBITDA	**5.7x**	**6.8x**	**3.0x**	**" "**	**4.0x**
2021 BBG Consensus:					
Revenue	1,294	4,306	7,108	" "	1,077
EBITDA	654	2,229	2,935	" "	419
EBITDA margin	*51%*	*52%*	*41%*	*" "*	*39%*
TEV/EBITDA	**4.9x**	**5.8x**	**2.5x**	**" "**	**3.8x**

** Sibanye-Stillwater bond and equity. Financials reflect standalone results of gold operations at subsidiary, Sibanye Gold Limited*
Source: Equity information sourced from Bloomberg as of close May 20th 2020.

1Q20 Financial and Operating Results:

- Production of 172 koz was in line with the lower end of FY20 guidance (1Q20 run rate: 688 koz) at an AISC of US$899/oz (+3% y/y, +10% q/q)
    - Production was split between Agbaou (16%), Ity CIL (35%), Karma (16%) and Houndé (33%)

    - The 42% y/y increase in production was driven by the ramp-up of operations at Ity CIL, while scheduled production decreases in Agbou results in an overall production decline of 3% q/q
    - The y/y and sequential increase in AISC was driven by higher costs at Houndé and Agbaou, which were balanced by lower costs at Ity CIL, Karma and Corporate, and higher royalties
- Average realized gold price for 1Q20 increased 24% y/y and 7% q/q to US$1,546
- Revenue increased 78% y/y and 9% q/q to US$270 mm, primarily as a result of the newly commissioned Ity CIL operations, supported by higher gold prices
- Adjusted EBITDA was US$129 mm, 215% higher y/y and 38% higher q/q, again due to new Ity CIL operations
- EBITDA margins expanded to 48%
- Free Cash Flow of US$53 mm remained positive for the third quarter in a row, benefitting from improved profitability and WK inflow, which balanced sequentially higher capex and interest payments
    - Interest payments were US$11 mm, up 81% q/q in line with the company's interest payment schedule
    - Lease and finance obligations were 149% higher sequentially at US$9 mm, but remain a small part of the company's cash outflow
    - Capex was 77% higher q/q at US$54 mm and includes US$17 mm, or ~40%, of the allocated US$40-45 mm in FY20 exploration capital spend
        - Sustaining mining capital spend of US$19 mm was notably higher q/q as a result of scheduled waste capitalization at Houndé (4Q19: US$6 mm, 1Q19: US$11 mm)
        - Sustaining exploration capital spend of US$0 mm, flat q/q
        - Non-sustaining mining capital spend of US$18 mm decreased q/q at Karma and Houndé, balanced by an increased at Ity related to a tailings storage facility ("TSF") raise (4Q19: US$20 mm, 1Q19: US$11 mm)
        - Non-sustaining exploration capital spend of US$15 mm increased substantially q/q due to heavier exploration drilling being carried out in 1H20 during the dry season (4Q19: US$2 mm, 1Q19: US$1 mm)
        - Growth project capital of US$2 mm was tied to the Kalana project and remained flat q/q (4Q19: US$2 mm, 1Q19: US$66 mm) (note 12)
    - Working capital, while contracted 86% q/q, remained positive at US$7 mm
    - Taxes decreased 39% q/q to US$9 mm
- Cash and equivalents increased 88% q/q to US$357 mm on increased cash flow and the draw down of US$120 mm of the company's RCF facility as part of its COVID-19 business continuity plan
- Net Debt was US$477 mm, down 11% q/q, and LTM net leverage contracted to 1.1x

EDVCN (US$MM)	1Q20	4Q19	3Q19	2Q19	1Q19	y/y	q/q
Production ('000 oz)	**172**	**177**	**181**	**172**	**121**	**42%**	**(3%)**
Agbaou	27	35	36	35	32	(16%)	(23%)
Ity	61	60	64	58	12	408%	2%
Ity Heap Leach	-	-	-	-	*3*	-	-
Ity CIL	*61*	*60*	*64*	*58*	*9*	-	*2%*
Karma	28	27	26	21	22	27%	4%
Houndé	56	55	55	58	55	2%	2%
All in sustaining Cost (US$/oz)	899	819	803	790	877	**3%**	**10%**
Agbaou	951	846	767	788	784	21%	12%
Ity	651	697	575	585	1,086	(40%)	(7%)
Ity Heap Leach	-	-	-	-	*1,086*	-	-
Ity CIL	*651*	*697*	*575*	*585*	*n/a*	-	-
Karma	866	755	901	1,047	957	(10%)	15%
Houndé	1,077	878	954	836	781	38%	23%
Corporate G&A	30	19	33	30	50	(40%)	58%
Sustaining Exploration	-	-	-	-	-	-	-
Revenue	**270**	**248**	**267**	**219**	**151**	**78%**	**9%**
Adj. EBITDA	**129**	**93**	**123**	**94**	**41**	**215%**	**38%**
Adj. EBITDA margin	48%	38%	46%	43%	27%	2,077bps	1,021bps
Interest paid	(11)	(6)	(10)	(8)	(9)	16%	81%
Repayment of finance and lease obligation	(9)	(4)	(5)	(11)	(3)	176%	149%
Capex	(54)	(30)	(33)	(66)	(103)	(48%)	77%
Working capital	7	47	(19)	5	(25)	(127%)	-
Taxes paid	(9)	(14)	(21)	(30)	(2)	412%	(39%)
Free Cash Flow	**53**	**86**	**34**	**(16)**	**(102)**	**(152%)**	**(38%)**
Gross Debt	**834**	**726**	**735**	**731**	**703**	**19%**	**15%**
Current portion of finance lease obligations	29	29	22	32	30	(6%)	(3%)
Finance and lease obligations	49	57	76	77	78	(38%)	(16%)
Long-term debt	757	639	637	623	594	27%	18%
Cash	357	190	120	78	84	325%	88%
Net Debt	**477**	**536**	**615**	**653**	**619**	**(23%)**	**(11%)**
LQA Gross Leverage	**1.6x**	**1.9x**	**1.5x**	**1.9x**	**4.3x**	**(2.7x)**	**(0.3x)**
LQA Net Leverage	**0.9x**	**1.4x**	**1.3x**	**1.7x**	**3.8x**	**(2.9x)**	**(0.5x)**
LTM EBITDA	**439**	**351**	**315**	**241**	**215**	**104%**	**25%**
LTM Gross Leverage	**1.9x**	**2.1x**	**2.3x**	**3.0x**	**3.3x**	**(1.4x)**	**(0.2x)**
LTM Net Leverage	**1.1x**	**1.5x**	**2.0x**	**2.7x**	**2.9x**	**(1.8x)**	**(0.4x)**

** Reflects continuing operations only*

<u>FY20 Guidance:</u>

- **Production:** 680-740 koz, more heavily weighted in 2H20 with anticipated higher grade ore at Houndé
- **All In Sustaining Costs ("AISC"):** US$845-895/oz, moving lower in 2H20 on increased production and reduced capex
- **Exploration Capital Spend:** A total of US$40-45 mm has been allocated to exploration capital for the year, with the majority expected to be utilized in 1H20 due to heavier exploration drilling being carried out during the dry season

FY20 Company Guidance			
Production (koz)			
Agbaou	115	-	125
Ity	235	-	255
Karma	100	-	110
Houndé	230	-	250
Corporate G&A	-	-	-
Sustaining Exploration	-	-	-
Total	**680**	-	**740**
AISC (US$)			
Agbaou	940	-	990
Ity	630	-	675
Karma	980	-	1,050
Houndé	865	-	895
Corporate G&A	30	-	30
Sustaining Exploration	5	-	5
Group	**845**	-	**895**
Exploration Capital Spend Budget (US$MM)			
Agbaou	10	-	10
Ity	65	-	67
Karma	10	-	10
Houndé	52	-	53
Fetekro	29	-	30
Kalana	10	-	10
Other Greenfield	15	-	16
Corporate G&A	-	-	-
Sustaining Exploration	-	-	-
Total	**40**	-	**45**

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