

BCP Research: Petropavlovsk (POGLN) – 2H19 Results – Superb Profitability

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Summary: Petropavlovsk (-/B-/B-), a Top-5 Russian gold miner, released its 2H19 financial results marked by a superb profitability: while revenue generally performed in line with the Bloomberg estimate (+3%), EBITDA massively surpassed it (+38%). The pressure oxidation facility (POX Hub) has been working out well contributing to production as well as helping to lower TCC, which came in at the lower end of the revised guidance – US\$749/oz. As a result, 2H19 production and sales were up h/h by 32% and 30%, respectively, reaching 292,000 oz, which resulted in a 43% h/h increase of revenue (US\$437 mm) and a 119% h/h growth of EBITDA (US\$182 mm). EBITDA margin improved sequentially to 41.6% (+14.3pp h/h). As we expected, with increasing contribution of POX Hub, the TCC came down providing a supportive factor for EBITDA; we expect, this to continue going forward. Based on 1Q20 production numbers, management expects the 2020 production to be in a range of 620,000 – 720,000 oz, an increase of at least 20% y/y. In October 2019, S&P upgraded the company's outlook to Positive while affirming its rating at 'B-'. In March 2020, Petropavlovsk agreed with Stocken to sell its 29.9% stake in IRC from US\$10 mm, contingent on the removal of the IRC debt guarantees.

06/08/2020

Description	Amt, USD MM	Ratings (M/SP/F)	Mid-Price	Mid YTW
POGLN 8.125% 11/14/2022	\$500	- / B- / B-	104.375	5.95%

	Amt Out (US\$ MM)	Mid Price	Mid YTW	IVOL	Cheapness (par)	Delta (par)	Conv. Price	POG LN Price (USD)
POGLN 8.25% 07/03/24	125	228.4	(14.41%)	n/a	11.29%	100.00%	0.14	0.31

* Source: Equity information sourced from Bloomberg. Convertible pricing as of June 8th 2020.

2H19 IFRS Results:

- Revenue – almost doubled y/y to US\$437 mm (+91% y/y and +43% h/h) on the backdrop of higher production (+32% y/y and +30% h/h to 292,000 oz) and sales (+72% y/y and +28% h/h to 289,000 oz)
- EBITDA – more than doubled sequentially to US\$182 mm (+49% y/y and +119% h/h) – as the TCC were at the lowest end of downward revised guidance at US\$749/oz (+15% y/y and -11% h/h) following cost containment and the smooth ramp-up of the POX Hub
- EBITDA margin – 41.6% (-11.7pp y/y and +14.3pp h/h)
- Capex – US\$59 mm (-12% y/y and +31% h/h) – mostly, maintenance as the expenses associated with the POX hub construction were largely completed
- Liquidity – US\$48 mm in cash and equivalents (+85% y/y and +24% h/h) vs. virtually no short-term debt
- FCF positive (pre- and post-working capital) on higher profitability and despite an uptick in capex; US\$73 mm working capital release in 2H19 also helped
- Debt – total debt of US\$623 mm (+5% y/y and +3% h/h), including lease liabilities and mainly composed of:
 - POGLN 22s Eurobond – US\$500 mm
 - POGLN 24s Convertible Eurobond – US\$125 mm – issued in June 2019, the proceeds used to redeem US\$100 mm of the POGLN 20s Conv
- Net leverage – improved to 2.2x (vs. 3.4x in 1H19) on stronger profitability and generally stable total debt (+3% h/h)

1Q20 Production Update:

- The company had a swift response to the COVID-19 pandemic implementing recommended health and safety procedures; the company's mining operations and POX Hub are naturally isolated away from population centers, so that too helped
 - Besides regular measures (temperature intake, PPE, etc.), the company reduced the frequency of new teams arriving onsite and restricted business travels to affected areas, like Moscow and London; so far, there have been no cases of COVID-19 among the employees

- Gold production is up 73% y/y to 186,000 oz, of which 62% came from processing refractory concentrates at the POX Hub

2020 Outlook:

- Based on 1Q20 production numbers, the company is expected to produce 620,000 – 720,000 oz of gold in 2020
- Capex - US\$70 - 80 mm – sustaining production and exploration and including the construction of a new floatation facility at Pioneer announced in June 2019 at a cost of US\$30 mm to be completed in 2020
- TCC (Total Cash Costs) – US\$700 – 800/oz

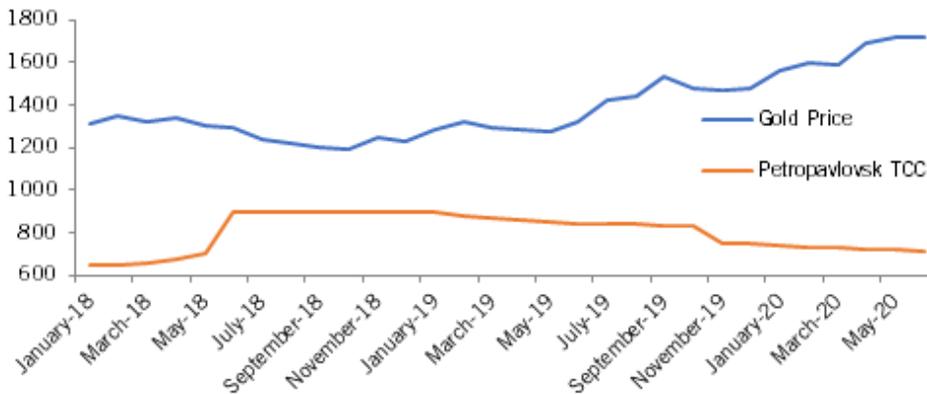
Petropavlovsk (- / B-/B-):

- Founded in 1994, Petropavlovsk is a Top-5 Russian gold miner with JORC Resources of 20.5Moz of gold with include Reserves of 8.2Moz of gold
- Operates in the Amur region of the Russian Far East employing over 8,500 people on the four facilities: Pokrovsky, Pioneer, Malomyr and Albyn
- Since April 2009, listed on the LSE with the current market cap of ~ GBP 824.2M 327.4M (~US\$1,017 mm), up 152 % since September 10, 2019
- New Major Shareholder – On July 11, 2019, Fincraft Resources (Mr. Kenes Rakishev) sold Fincraft Holdings, a major Petropavlovsk shareholder, to Altair (Mr. Roman Trotsenko); Mr. Rakishev bought his stake in December 2017 from Mr. Vekselberg's Renova group
- Other shareholders - Sothic MF (9.36%), VTB Deutschland (9.06%), D.E. Shaw (7.75%), Prosperity Capital (5.0%) Slevin (4.55%) and Everest Alliance (former CABS) – 4.55%
- Major subsidiary – IRC (31.1%), a vertically integrated iron ore producer and developer in the Russian Far East and North-eastern China, IRC is the HKSE-listed with a market cap of HKD 482.4M (~US\$62.2 mm) with an annual production of 1,56 mm tons (2017)
 - 2010 – Petropavlovsk owned a 65% stake in IRC, and became a sole guarantor for a US\$340 mm project finance facility from Chinese ICBC
 - Following three additional share issues, Petropavlovsk share in IRC was diluted to 31% with 43% in free-float and other shareholders being Chinese entities: Tiger Capital (11%) and General Nice (14%)
 - In February 2018, Mr. Rakishev expressed his desire that Petropavlovsk should sell its 31% stake in IRC to focus exclusively on gold
 - In June 2018, Petropavlovsk extended a US\$30 mm bridge loan to IRC, repayment of which along with a US\$6 mm guarantee fee is expected before the end-2018 when refinancing is obtained – and it was in Dec. 2018
 - March 2019 – the outstanding loan between IRC and ICBC was successfully refinanced and Petropavlovsk received the RUB-equivalent of US\$57 mm as full repayment of the two bridge loans advanced to IRC in 2018 by Petropavlovsk
 - in addition, a US\$6 mm guarantee fee is being paid too with further US\$5 mm payable by IRC no later than March 31, 2020
 - March 2020 – Petropavlovsk agreed with a Liechtenstein-registered Stocken Board AG to sell its 29.9% stake in IRC from US\$10 mm, contingent on the removal of the IRC debt guarantees
- Commissioned a pressure oxidation facility (POX Hub) to process its substantial refractory resource base
- Holds a license covering 3,430 km² with untapped resource potential
- Rating Agencies:
 - Fitch – In August 2019, Fitch upgraded the company's rating to 'B-/Pos citing 'significant strengthening in Petropavlovsk's liquidity position due to the refi of the convertible bond
 - S&P – In October 2019, S&P upgraded Petropavlovsk's outlook to Positive affirming its rating at 'B-' highlighting the progress which the company has made over the past 12 months

Petropavlovsk, USD MM	2H19	2H18	1H19	y/y	h/h	2019	2018	y/y
Revenue	437	229	305	91%	43%	742	500	48%
EBITDA	182	122	83	49%	119%	265	183	45%
EBITDA margin	41.6%	53.3%	27.3%	(11.7pp)	14.3pp	35.7%	36.6%	(0.9pp)
Tax	(16)	(5)	(17)	220%	-6%	(33)	(5)	551%
Interest	(34)	(34)	(33)	0%	3%	(67)	(61)	11%
Capex	(59)	(67)	(45)	-12%	31%	(104)	(134)	-23%
FCF (pre-working capital)	73	16	(12)	356%	n/a	61	(17)	n/a
Working Capital, Net Change	(42)	59	(20)	n/a	115%	(61)	167	n/a
FCF (post working capital)	31	75	(31)	-59%	n/a	(0)	150	n/a
ST Debt	0	0	97	n/a	n/a	0	0	n/a
ST Lease Liabilities	5	0	3	n/a	79%	5	0	n/a
LT Debt	609	594	500	3%	22%	609	594	3%
LT Lease Liabilities	8	0	3	n/a	160%	8	0	n/a
Total Debt	623	594	603	5%	3%	623	594	5%
Cash	48	26	39	85%	24%	48	26	84%
Net Debt	574	568	564	1%	2%	574	568	1%
EBITDA LTM	265	143	165	85%	60%	265	143	85%
Leverage	2.4x	4.2x	3.6x	-43%	-36%	2.4x	4.2x	-43%
Net leverage	2.2x	4.0x	3.4x	-45%	-36%	2.2x	4.0x	-45%
FX(RUB/USD)	61.95	69.08	63.22	-10%	-2%	61.95	69.08	-10%

Petropavlovsk Operational Results	2H19	2H18	1H19	y/y	h/h	2019	2018	y/y
Gold produced, 000 oz	292	221	225	32%	30%	517	422	23%
Gold sold, 000 oz	289	168	225	72%	28%	514	370	39%
Average realized price, USD/oz	1,346	1,268	1,286	6%	5%	1,346	1,263	7%
Total Cash Costs (TCC), USD/oz	749	650	841	15%	-11%	749	786	-5%
All-in-Sustaining Costs (AISC), USD/oz	1,020	1,117	1,029	-9%	-1%	1,020	1,117	-9%

Global Gold Price vs. Petropavlovsk TCC, USD



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