BCP Research: Pretium Resources Inc. (PVGCN) – 2Q20 Results, Positive – Rate Neutral

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Summary: Pretium Resources Inc. ("Pretium") is a Canada-based gold and silver mining company, with operations focused primarily in wholly-owned underground Brucejack Mine (British Colombia) and revenues derived primarily from gold. The company reported positive 2Q20 results thanks to the increase in gold price, paralleled with an increase in gold volumes produced. As a result revenue and Adj. EBITDA increased both y/y and sequentially, with Adj. EBITDA margins expanding to 53%. Free cash flow was positive US$76 mm, benefitting from strong profitability and WK inflow in the quarter. Cash and equivalents increased to US$125 mm on FCF and the drawdown of US$16 mm of a sr. secured Loan Facility. As a result, net debt decreased to US$455 mm at LTM net leverage of 1.7x.

Gold production is anticipated to be 325 – 365 koz at Brucejack Mine for FY20, 3-14% lower than FY19, but balanced by improved gold prices, which should continue to benefit cash flows. Meanwhile, the company continues to generate cash, supported by US$135 mm in liquidity (24% liquidity to LTM revenue) and an additional US$459 mm which remains undrawn under the sr. secured Loan Facility. ***Nevertheless, we remain neutral for the time being, given limited upside from current levels (108c) to FV (111c) v. the bond floor (99c), and minimal spread between implied volatility (44%) v. 100D realized (62%) and listed calls (60%).***

	Amt Out (US$ MM)	Mid Price	Mid YTW	Implied Vol	Cheapness (par)	Delta (par)	Conv. Price	PVG US Price
PVGCN 2.25% 3/15/2022	100	108.4	(3.32%)	43.76%	1.65	44.36%	$16.00	$12.82

Source: Equity information sourced from Bloomberg. Convertible pricing as of September 29th 2020.

2Q20 Financial and Operational Results:

- Production totaled 200 koz in the quarter, down 12% y/y and 3% q/q, driven primarily by lower production of silver
    - Gold production was flat y/y and 9% higher q/q at 90 koz
    - Silver production decreased 19% y/y and 12% q/q to 109 koz
- Volumes sold totaled 180 koz, down 6% y/y and 8% q/q on lower volumes of silver sold, mitigated by higher gold volumes sold
    - Gold volumes sold increased 12% y/y and 19% q/q to 96 koz, aligned with increased pricing, supported by higher production volumes q/q
    - Silver volumes sold decreased 20% y/y and 27% q/q to 84 koz
- Total cash costs increased 7% y/y but decreased 5% q/q to USD749 per ounce of gold sold, with higher y/y costs attributable to employee salaries and travel costs related to COVID-19 safety protocol
- All-in sustaining costs (AISC) decreased 3% y/y and 9% q/q to USD911, driven by the offset of costs by higher gold ounces sold
- Average realized price of gold increased 32% y/y and 8% q/q to USD1,738 per gold ounce

Pretium Resources Inc. (US$MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
Gold Produced (koz)	90.4	82.9	96.2	88.2	90.8	(0%)	9%
Silver Produced (koz)	109.3	123.9	148.0	125.0	135.8	(19%)	(12%)
Gold Sold (koz)	96.0	80.5	93.2	90.7	86.0	12%	19%
Silver Sold (koz)	83.6	114.6	110.8	108.3	104.4	(20%)	(27%)
Total Cash Costs (USD / oz)	$749	$787	$692	$640	$702	7%	(5%)
AISC (USD / oz)	$911	$996	$866	$878	$940	(3%)	(9%)
Average Realized Price (USD / oz)	$1,738	$1,605	$1,480	$1,486	$1,319	32%	8%

- Revenue of US$167 mm increased 47% y/y and 32% q/q on higher pricing and volumes of gold ounces sold
    - Gold revenues from contract customers totaled US$163 mm
- Adj .EBITDA of US$88 mm was 94% higher y/y and 56% higher q/q, driven primarily by improved profitability on higher gold pricing and gold volumes sold
- Adj. EBITDA margins expanded 127 bps y/y and 840 bps q/q to 53%
- Free cash flow was US$76 mm on the back of improved profitability, alongside WK inflow, lower capex, lease liability and interest payments
    - Working capital inflow was US$4 mm in the period, driven primarily by a decrease in inventories of US$4 mm, and increase in accounts payable of US$2 mm, balanced by an increase in accounts receivable of US$2 mm
    - Taxes paid increased 33% q/q to US$2 mm
    - Capex decreased 11% q/q to US$10 mm, and includes US$5 mm in sustaining capex
    - Lease liability payments decreased 9% q/q to US$ 1 mm
    - Interest paid decreased 43% q/q to US$3 mm
- Cash and equivalents were US$125 mm, 207% higher q/q as a result of cash inflow and the drawdown of a portion of the company's revolving portion of its loan facility
    - Cash to LTM revenue increased 1,423 bps q/q to 22%
- Liquidity (cash and equivalents, trade and other receivables) totaled US$135 mm in the quarter
    - Liquidity to LTM revenue increased 1,444 bps q/q to 24%
- Net debt was US$455 mm, down 15% q/q on cash improvements
    - The company drew down US$16 mm of the revolving portion of its Lean Facility in 2Q20 to improve liquidity
        - US$459 mm of the company's US$480 mm Loan Facility remains undrawn as of end-2Q20
            - The US$480 mm Loan Facility, maturing December 18th 2022, consists of a US$250 mm sr. secured amortizing non-revolving credit facility (Term Facility) and US$230 mm sr. secured revolving credit facility (Revolving Facility), secured by substantially all of the assets of Pretium Resources and subsidiaries
                - The Term Facility is required to be repaid in equal installments of principal until maturity. The current outstanding balance is US$167 mm, with US$33 mm repaid to date
                - The Revolving facility is a bullet maturity. The current outstanding balance is US$198 mm
- LTM net leverage contracted to 1.7x, again due to strong profitability and improvements in the company's cash position

Pretium Resources Inc. (US$MM)	2Q20	1Q20	4Q19	3Q19	2Q19	y/y	q/q
Revenue	**167**	**127**	**135**	**133**	**113**	47%	32%
EBITDA	**88**	**56**	**64**	**64**	**46**	90%	56%
Write-down of inventories	-	-	-	2	-	-	-
Settlement of offtake obligations	-	-	-	(1)	(1)	-	-
(Gain)/loss on disposal of PP&E	-	-	-	(0)	0	-	-
Adj. EBITDA	**88**	**56**	**64**	**65**	**45**	94%	56%
Adj. EBITDA margin	*53%*	*44%*	*47%*	*49%*	*40%*	127 bps	840 bps
Working capital	4	(2)	2	11	(6)	-	-
Taxes paid	(2)	(1)	(1)	(1)	(1)	64%	33%
Capex	(10)	(11)	(17)	(15)	(7)	32%	(11%)
Lease liabilities paid	(1)	(2)	(2)	(2)	(2)	(10%)	(9%)
Interest paid	(3)	(6)	(5)	(7)	(7)	(53%)	(43%)
Free Cash Flow	**76**	**35**	**41**	**51**	**23**	237%	116%
Lease Liabilities	131	127	135	162	144	(9%)	3%
Loans and Credit Facilities	359	360	376	391	408	(12%)	(0%)
Offtake Obligations	-	-	-	20	79	-	-
Convertible Bonds (1)	90	90	90	90	90	0%	0%
Total Debt	**579**	**577**	**602**	**663**	**721**	**(20%)**	**0%**
Net Debt	**455**	**537**	**578**	**647**	**687**	**(34%)**	**(15%)**
Cash & Equivalents	**125**	**41**	**23**	**17**	**34**	**264%**	**207%**
Trade Receivables	10	8	6	13	22	(54%)	21%
Other Receivables	0	0	0	1	0	293%	213%
Liquidity	**135**	**49**	**29**	**30**	**57**	139%	175%
LTM Revenue	561	508	485	458	435	29%	11%
LTM Adj. EBITDA	273	231	215	196	181	51%	18%
LTM Gross Leverage	**2.1x**	**2.5x**	**2.8x**	**3.4x**	**4.0x**	**(1.9x)**	**(0.4x)**
LTM Net Leverage	**1.7x**	**2.3x**	**2.7x**	**3.3x**	**3.8x**	**(2.1x)**	**(0.7x)**
Cash / LTM Revenue	**22%**	**8%**	**5%**	**4%**	**8%**	**143 bps**	**1,423 bps**
Liquidity / LTM Revenue	**24%**	**10%**	**6%**	**7%**	**13%**	**111 bps**	**1,444 bps**

(1) Convertible bonds valued at par

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