

## BCP Research: Petropavlovsk (POGLN -/B-/B-)- Consent Solicitation for POGLN 22s

Published: October 2<sup>nd</sup>, 2020

*Summary: On October 2, 2020, Petropavlovsk (-/B/B), a Top-5 Russian gold miner, announced a consent solicitation in regards to its US\$500 mm POGLN 8.125% 22s Eurobonds – the issuer is seeking certain waivers in respect of the terms and conditions (T&C) of the Eurobonds, namely, (i) failure to publish its 1H20 IFRS financials by September 28, 2020 and (ii) a possible default because of it. Please find the details below.*

10/2/2020

Description	Amt, USD MM	Ratings (M/SP/F)	Mid-Price	Mid YTW
POGLN 8.125% 11/14/2022	\$500	- / B / B	104.38	5.61%

### Consent Solicitation – October 2, 2020

- Background
  - Under the T&C of the POGLN 22s – the company must publish its IFRS financials within 90 days after the end of the first six months of each financial year: i.e. semi-annual financial results must be delivered by September 28
  - 1H20 IFRS results were not delivered by September 28, 2020, hence, on September 29, 2020, pursuant to Clause 6.2 of the Trust Deed, the issuer notified the Trustee of the occurrence of a Default in respect of the failure to deliver 1H20 IFRS financials
  - Proposal - it is being proposed that the bondholders agree to waive the requirement to make available and deliver 1H20 IFRS financials by September 28, 2020
- Reason for the delay
  - in 2019, the company undertook a formal process of changing its auditor for 2020: Deloitte, the company's auditor since 2009, did not resign, but did not inform the company that it was not planning to participate in the tender process
    - Deloitte completed the company's 2019 financial statements and delivered an unqualified audit report
  - PricewaterhouseCoopers (PwC) was chosen and was appointed on June 30, 2020 by the general shareholder meeting (AGM)
    - On July 28, 2020, PwC announced that it was not able to accept its appointment pending the results of a further general meeting on Aug 10, 2020 (RGM)
    - On Aug 24, 2020, PwC confirmed that it was not going to accept the appointment citing the significant changes to the Board of Directors (BoD), namely removal of the majority of both independent and executive directors and PwC's concern over the corp governance
  - The company undertook a search for a new auditor and on Sept 21, 2020 announced the appointment of MHA MacIntyre Hudson (MHA), the UK member of Baker Tilly International for the 2020 financial year
  - The company plans to publish its 1H20 IFRS financials in the second half of October 2020
  - Since its appointment, the BoD has continued to address the question of its composition. The BoD remains committed to a transparent governance structure

- The BoD has been subject to significant change as a result of shareholder voting at the most recent AGM and the RGM, with director candidates, including Mr. Pavel Maslovskiy, the former CEO and co-founder, failing to be appointed as directors
  - In addition, since his appointment, the interim chief executive officer (Interim CEO) has encountered a lack of co-operation and the validity of its authority has been challenged in local Russian courts. The BoD is working to resolve these issues
- Consent Solicitation for POGLN 22s – the company is proposing that the bondholders agree to:
  - (1) waive the failure to comply with the requirement to publish 1H20 IFRS financial results by Sept 28, 2020, provided that the company does not publish 1H20 IFRS results on its website or deliver to the Trustee by Dec 15, 2020, then such waiver shall cease to apply and
  - (2) waive the failure to comply with any Default or Event of Default that has arisen or may arise as a result of the semi-annual financial publication outlined above
- Proposal – if the proposal is implemented, it would allow MHA time to prepare 1H20 IFRS financial report and if the company publishes it prior to the meeting on October 26, 2020, then the company may terminate the solicitation
  - If a termination event occurs, the company will not pay the consent fee, but the termination fee
- Consent Solicitation: US\$500 mm POGLN 8.125% 22s
  - Consent Fee – 0.25%
  - Termination Fee – 0.10%
  - Consent Fee or Termination Fee – noteholders will be eligible to receive either the Consent Fee or the Termination Fee, but not both
  - Quorum - for the Extraordinary Resolution to be considered at the meeting:
    - First Meeting - one or more bondholders 'holding or representing a clear majority'
    - Subsequent Meetings – one or more bondholders 'being or representing noteholders whatever the principal amount of the notes held or represented'
  - Pass – for the Extraordinary Resolution to pass at the meeting with the quorum (see above) – a majority of at least 75% of the votes cast
    - if passed, the Extraordinary Resolution shall be binding on all holders whether present or not at the meeting and whether voting or not
- Launch of the Consent Solicitation – October 2, 2020
- Record Date – October 13, 2020 at 5:00pm New York Time
- Early Consent Deadline – October 14, 2020 (11:00am New York Time)
- Final Consent Deadline – October 23, 2020 (11:00am New York Time)
- Meeting – October 26, 2020 at 10:00am London Time (5:00am New York Time)
- Results Announcement – October 26, 2020 as soon as practically possible after the meeting
- Effective Date – the day the extraordinary resolution has been passed (the date of which the waiver shall become effective)

- Settlement Date – expected to be five (5) business days after (i) in the case of the consent fee, the date of the meeting or, as the case may be, adjourned meeting or (ii) in case of the termination fee, the termination date
- Joint Dealer Mangers – Citigroup Global Markets Ltd and UBS AG London Branch

#### **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 1,296.1M (~US\$1,674 mm)
- Commissioned a pressure oxidation facility (POX Hub) to process its substantial refractory resource base
- Holds a license covering 3,430 km<sup>2</sup> with untapped resource potential

<b>Petropavlovsk, USD MM</b>	<b>2H19</b>	<b>2H18</b>	<b>1H19</b>	<b>y/y</b>	<b>h/h</b>	<b>2019</b>	<b>2018</b>	<b>y/y</b>
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%

<b>Petropavlovsk Operational Results</b>	<b>2H19</b>	<b>2H18</b>	<b>1H19</b>	<b>y/y</b>	<b>h/h</b>	<b>2019</b>	<b>2018</b>	<b>y/y</b>
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%

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