

Financial results of Central Asia Metals for 2018 and operating results for 1Q2019

Aliya Assilbekova — April 11, 2019

In 2018, the Company included the full results of Macedonian mine SASA acquired at the end of 2017. According to the financial results for 2018, the Company's gross income amounted to USD204.5mn (+ 91.7% y/y) due to an increase in its share of SASA field revenues to USD111.6 mn (+ 458% y/y) and a slight increase in revenue at Kounrad deposit (+7.2% y/y). EBITDA rose to USD125.3mn (+132.5% y/y). EBITDA margin was 61% in 2018 against 51% in 2017. Net profit for 2018 increased by (+46% y/y) and amounted to USD72.7mn. The Company's net debt for 2018 decreased to USD110.3 mn (-20.6% y/y). According to the current dividend policy, the CAML management recommends paying an annual dividend of GBP 14.5 per share (2018: 16.5GBP/share), which is 44% of the Company's adjusted free cash flow for 2018.

Growth of gross revenue and EBITDA for 2018 was attributable to an increase in sales of zinc in concentrate (+ 546.7% y/y) to 18 792 tons and lead in concentrate (+ 511.5% y/y) to 27 878 tons in the SASA field. The average selling prices of zinc and lead in concentrate in 2018 decreased from the level of 2017, reaching USD2 819 (-13% y/y) and USD2 170 (-9.6% y/y) per ton, respectively. Total copper sales at Kounrad deposit in 2018 turned out to be at the level of 2017 and amounted to 14 081 tons (2017: 14 181 tons).

Production costs increased by 143.3% y/y, reaching USD76.4 mn, due to an increase in the number of employees and related costs associated with the extraction of metals. The cost of depreciation (+ 209.3% y/y) increased to USD33.4mln due to an increase in the fair value of the SASA field. Employee wage costs increased by + 137.3% y/y (USD12.1 mn), and costs for electricity, reagents and materials increased by + 159.2% y/y (USD19.7 mn). Administrative expenses increased by + 57.9% y/y (USD24mn) due to the acquisition of the SASA field at the end of 2017.

According to the operating results, in 2018 the company produced 14 049 tons of copper at Kounrad deposit (-0.38% y/y), 22 532 tons of zinc in concentrate (+ 4.39% y/y) and 29 388 tons of lead in concentrate (-1.65% g/g) at the SASA field. Out of the 14 049 tons of copper produced at Kounrad in 2018, 8 980 tons (64%) were produced in western dumps. In 2018, there was a slight decrease in the level of zinc extraction at the SASA deposit to 84.6% versus 85.5% in 2017 and lead up to 93.6% against 94.6% in 2017.

In 2018, the Company explored the Shuak field and decided not to continue the subsequent development of the field, classifying the field as an asset intended for sale and devaluing it in full for USD2.2 mn.

CAML confirmed production forecasts for 2019 at the level of 12 500-13 500 tons of copper, 22 000 -24 000 tons of zinc in concentrate and 28 000-30 000 tons of lead in concentrate. The company plans to increase production in western dumps to 70% on Kounrad. Capital expenditures will decrease in 2019 to USD10m (-25.3% y/y) at the SASA field, and the capital cost of maintaining production at Kounrad will be USD2mn. The company plans to complete construction of the TSF 4 tailing dump at the SASA field in 1Q2019, the capacity of which will be sufficient until 2026.

In 1Q2019 the Company produced 5 639 tons (-50.5% y/y) of zinc in concentrate and 7 212 tons of lead (-5% g/g) in concentrate at the SASA field. In the reporting quarter, there was a slight increase in zinc extraction level to 86.8% against 84.6% in 1Q2018 and lead up to 94% versus 93.3% in 1Q2018. Company in 1Q2019 produced 2,952 tons of copper at Kounrad, which is 4% y/y less than in 1Q2018.

Our opinion:

In general, the Company demonstrated strong financial and production results for 2018, meeting our expectations. The main growth driver of the Company is the SASA field, which historically demonstrates stable production of zinc and lead. The efficient transition of production from the eastern Kounrad dumps to the western dumps is a key factor for the Company's stable operations in Kazakhstan. According to the results of 2018, the Company's cash costs remain in the lowest quartile of the global cost curve and amounted to USD0.87/lb (+ 14% y/y).

Given the robust financial and growing operating performance, we maintain our recommendation to **Buy** CAML shares with **12M TP 270 GBP/share**.

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