

Centerra Gold's operating results for 1H2019

Aliya Assilbekova — July 31, 2019

Following the results of 6M2019, the Company generated revenue of 674.5 mn USD (+ 41% y/y) with adjusted net profit of 83.8 mn USD (+ 484% y/y). Average consolidated sales prices for gold and copper in 1H2019 increased to 1,233USD /oz (+ 1% y/y) and to 4,740 USD/ton (-3.6% y/y) respectively. The All-In Sustaining costs (AISC) of the Company for 1H2019, excluding taxes, amounted to 693 USD/oz (-28% y/y).

During the period under review, Centerra Gold produced 383,140 oz of gold (+ 47% y/y), out of which 301,373 oz (+ 64% y/y) produced at Kumtor and 81,767 oz (+ 8% y/y) on the Mount Milligan. Also at the latter 14,441 tons of copper (+ 41% y/y) were produced. The increase in gold production at Kumtor was due to the processing of ore reserves with high levels of grade and recovery. The growth in operating performance of Mount Milligan is associated with the achievement of throughput capacity of the processing plant (55 thousand tons of ore per day) in 1H2019 due to increased water resources after spring floods.

As of July 1, 2019, all construction works at the Oksut field in Turkey are proceeding as planned and 64% completed. The Company plans to start gold mining in 1Q2020.

Centerra Gold also announced another postponement of the deadline for the fulfillment of all conditions under the strategic agreement concluded with the Government of Kyrgyzstan on June 30 to August 10, 2019.

The Company raised its production forecast for 2019, which is 705-750 koz of gold at Kumtor and Mount Milligan (+2%). At Mount Milligan, the Company expects to produce 29.5-34 kttons of copper (+40%).

Our opinion:

The launch of Oksut project in Turkey will increase the Company's production on average by 110 koz of gold per year (+ 5%), and also will help to reduce the all-in sustaining costs (AISC - 490 USD/oz), which will generate free cash flow in the medium term and will contribute to the geographical diversification of Centerra Gold's portfolio.

It is worth noting two negative factors affecting the operating performance of the Company. The dependence of production at Mount Milligan on natural conditions and the availability of water resources can worsen operational performance at the mine. At Kumtor, the political risk associated with settlement of the terms of a strategic agreement with the government of Kyrgyzstan remains. Considering the achievement of our target price for Centerra Gold's shares, we put our recommendation under review.

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