

# Centerra Gold announces 2018 financial results

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Aliya Assilbekova — February 26, 2019

For 2018 the Company's revenue amounted to 1 129.3mn USD (-6% y/y), the operating profit decreased to 98.6mn USD (-61.9% y/y) with the net income of 107.5mn USD (-48.7% y/y). The decline in revenue in 2018 occurred mainly due to the decline in gold and copper sales as well as reduced average prices for realized metals in 2018, which were partially offset by an increase in molybdenum sales by 42% y/y in 2018 compared to 2017.

The decline in net income occurred due to the impact from Mount Milligan operating at reduced capacity as the result of the shortage of water resources, slightly lower gold production at Kumtor as the result of lower grades in ore and a charge of 40.4mn USD in reclamation expenses.

In addition, the Company's net profit in 2018 was influenced by a number of one-time events: a gain of 28mn USD on the sale of the gold royalty portfolio, 9.4mn USD proceeds from the sale of gold mine in Mongolia, charge for asset impairment for the amount of 8.4mn USD related to the sale of Mongolian business unit and 4.4mn USD costs incurred as part of the acquisition of Canadian asset (AuRico Metals Inc.) in 2018. Excluding one-time items, adjusted earnings in 2018 were 77.8mn USD (-72.3% y/y).

All-in sustaining costs on a by-product basis per ounce of gold sold, which excludes income tax and takes into account all production, amounted to 754 USD (+9.8% y/y), per copper ton - 3 902 USD (+20% y/y) and increased as the result of lower sales at Mount Milligan, higher mining costs at Kumtor and lower gold ounces sold, partially offset by lower capitalized stripping costs at Kumtor and lower administration costs in 2018. The total capital expenditures, including stripping costs, amounted to 330.1mn USD (326.1mn USD in 2017).

As of 2018, Centerra Gold produced 729 556 oz of gold (-7.1% y/y), out of which 534 563 oz of gold was produced at Kumtor (-5% y/y) and 194 993 oz of gold (-12% y/y) was produced at Mount Milligan. In addition, 21.4 kt of copper was produced at Mount Milligan (-12% y/y).

In 4Q2018 the Company reduced the ore processing due to reduced water resources, but plans to increase the throughput of the mine in 2Q2019. Taking into consideration a new drilling program at the end of 2018, the Company expects to achieve an average throughput of approximately 55 kt per day in the second half of 2019. Centerra has already received permission for the long-term use of water from groundwater wells from Mount Milligan tailings and the lake closest to Mount Milligan to prevent a decrease in the throughput capacity of the plant in the future.

In January 2018, the Company received permission to work on pasture territory under the project Öksüt in Turkey. The launch of the project was approved by the Board of Directors and construction work began in March 2018. As of December 31, 2018 the construction of the project was completed according to the plan for 38%, which runs within the budget. The first gold production by the Company is expected in 1Q2020.

In 2019 the Company's sustaining and growth capital expenditures are projected at 275mn USD (+73% y/y), all-in sustaining costs per ounce of gold will be 741-795 USD.

## **Our opinion:**

Production forecasts provided earlier by the Company for 2018 at the levels of 645-715 koz of gold and 21.3-23.6 kt of copper, were significantly lower than actual operating results. Overall, the Company exceeded the forecasted production indicators and produced 729 koz of gold, which is 2% higher than the planned upper range, while the copper production was within the planned production range.

Meanwhile, production forecasts provided by the Company for 2019 at the levels of 690-740 koz of gold and 29.5-34 kt of copper are fairly conservative and below our forecasts for 2019. Since the stock price has reached our target price, we put our recommendation under review.

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