

Centerra Gold reported financial and operational results for 1Q2019

Aliya Assilbekova — May 02, 2019

During the reporting period, the Company produced 183 563 oz of gold (+ 41% y/y), of which 82% was produced at Kumtor (+ 50% y/y) due to an increase in the average grade and recovery rate and 18% at Mount Milligan (+13 % y/y) due to increased throughput capacity. The latter also produced 5 171 tons of copper (+ 86% y / y).

The Company's revenue for 1Q2019 amounted to 334 mn USD (including 61,6 mn USD from molybdenum business) against 235.4 mn USD for 1Q2018 (including 56,3 mn USD from molybdenum business). The increase in revenue was due to an increase in gold sales to 196 451 ounces of gold (+ 48% y/y), copper sales to 5 670 tons (+ 178%), molybdenum and higher average prices for sold metals (copper and molybdenum). Consolidated average selling price of gold in 1Q2019 was equal to 1 229 USD/oz (-4% y/y) and copper - 5 489 USD/t (+ 12% y/y).

Production costs increased to USD 207,9 mn (+ 46% y/y). The company received operating income of 52,1 mn USD (+ 154% y/y). Net income for the quarter adjusted for one-time events amounted to 50,4 million USD (+ 458% y/y). The total balance of cash and cash equivalents as of March 31, 2019 was 207,9mn USD versus 179,2mn USD as of December 31, 2018, and cash flows from operating activities reached 118,8 mn USD (against -39,7 million USD in 1Q2018).

At the end of 1Q2018 the processing capacity of Mount Milligan reached 32 000 tons of ore per day, with an average quarterly average of 19 000 tons/day. The company expects that with spring floods, which will provide an increase in the water resources required for operation, and in connection with the previously obtained permission to access nearby lakes, Mount Milligan's processing capacity will be increased to 55 000 tons per day previously announced, which is a forecast figure for 2H2019.

The company also began major construction work on the Oksut project at the end of March 2018 after obtaining all necessary permits and approval of the project by the Board of Directors. As of March 31, 2019 about 49% of construction work on the project, which is scheduled to be completed on time and within budget, has been completed. Gold production is planned for the beginning of 2020.

Our opinion:

Among the positive operational aspects, we note a fairly fast growth rate of processing capacity at Mount Milligan, but at the same time we emphasize the dependence of the further growth of the indicator on external factors (floods, obtaining the necessary permits for using water resources from a nearby reservoir and underground sources). The company confirmed annual production forecasts at levels of 490 000–740 000 oz of gold, including Kumtor's of 535 000–565 000 oz and 155 000–175 000 oz for Mount Milligan. Given the need to update our forecasts, we put our recommendation under review.

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Research	Department	Telephone	E-mail
Stanislav Chuyev	Head		s.chuyev@halykfinance.kz
Assan Kurmanbekov	Macroeconomics		a.kurmanbekov@halykfinance.kz
Dmitriy Sheikin	Macroeconomics		d.sheikin@halykfinance.kz
Zhansaya Kantayeva	Fixed income		zh.kantayeva@halykfinance.kz
Madina Meterkulova	Equity		m.meterkulova@halykfinance.kz
Vladislav Benberin	Equity		v.benberin@halykfinance.kz

Sales	Department	Telephone	E-mail
Mariya Pan	Head		m.pan@halykfinance.kz
Aizhan Moldakhmetova	Institutional		a.moldakhmetova@halykfinance.kz
Asel Baizhanova	Institutional		a.baizhanova@halykfinance.kz
Zhanna Nuralina	Retail		zh.nuralina@halykfinance.kz
Shynar Zhakanova	Retail		sh.zhakanova@halykfinance.kz
Aliya Abdumazhitova	Retail		a.abdumazhitova@halykfinance.kz
Alya Mukhametzhanova	Retail		a.mukhametzhanova@halykfinance.kz

Halyk Finance

Abay av. 109 «B», 5th fl.
 Almaty, Kazakhstan, A05A1B4
 Tel: +7 727 331 59 77
www.halykfinance.kz

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