

### Confirmation of recommendation to Buy

Aliya Assilbekova

a.assilbekova@halykfinance.kz

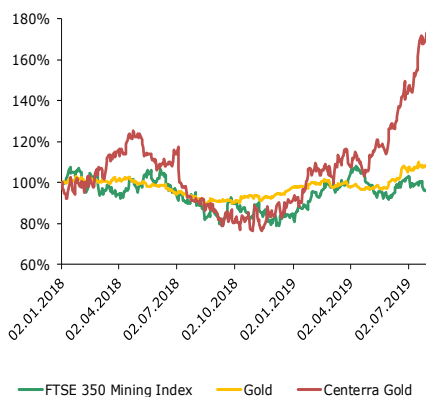
09 August 2019

Ticker	CG CN
Recommendation	Buy
Current price, CAD/share (08.08.2019)	12,00
12M TP, CAD/share	13,73
<b>Upside potential</b>	<b>14,4%</b>
Number of ordinary shares, thous	292 000
Average daily turnover for 3M, mn USD	11
Free float	73,5%
Market capitalization, thous USD	2 675
<b>Major shareholders:</b>	
Kyrgyzzaltyn OJSC	26,5%
BlackRock	10,6%
Van Eck Associates Corporation	9,8%

Financial indicators, mn USD	2019F	2020F	2021F
Revenue	1 336	1 442	1 421
EBITDA	566	650	634
Net income	274	327	297
EPS	0,94	1,12	1,02
Equity	2 422	2 749	3 046
Net debt	287	268	218

Valuation	2019F	2020F	2021F
Net debt/EBITDA	0,5	0,4	0,3
Net debt/Equity	0,1	0,1	0,1
EV/Sales	2,6	2,4	2,4
EV/EBITDA	6,1	5,3	5,4
P/E	9,8	8,2	9,0
P/B	1,1	1,0	0,9
ROE	11,3%	11,9%	9,8%

Prices dynamics	CG CN	FTSE 350 mining
1M	12%	-8%
3M	45%	-4%
12M	78%	3%
52 weeks high	11,1	27 715
52 weeks low	4,9	20 195



Sources: Bloomberg, Halyk Finance

**We confirm our recommendation to Buy Centerra Gold's shares with 12M TP CAD13,73/share:** gold prices continue to show positive dynamics amid increased risks due to trade conflicts, a slowdown in global economic growth and uncertainty with Brexit. In addition, Centerra Gold improved its projected gold production levels for 2019 and achieved a reduction in all-in sustaining cash costs, which will positively affect the financial results of the Company.

**Raising the forecast for operating indicators for 2019.** The Company updated its gold production forecast for the Kyrgyz Kumtor deposit, where the Company plans to produce 550-575 koz of gold (+2%). Overall, Centerra Gold plans to produce 705-750 koz of gold (+ 2%) at Kumtor and the Canadian mine Mount Milligan. We note that for 1H2019 Centerra Gold produced 383 koz of gold (+ 47% y/y), of which 301 koz (+ 64% y/y) were produced at Kumtor and 82 koz (+ 8% y/y) at Mount Milligan. Also at the last 14.4 ktms of copper were produced (+ 41% y/y). The increase in gold production at Kumtor was due to the processing of ore with higher levels of grade and recovery. The growth in Mount Milligan's operating indicators is associated with an increase in the throughput capacity of the processing plant to 55 ktms of ore per day in 2Q2019 due to the spring floods. According to the results of 6M2019, the Company generated revenue of USD 674.5mn (+ 41% y/y) with an adjusted net profit of USD 83.8mln (+ 478% y/y). The all-in sustaining costs (AISC) of the Company's gold production for 1H2019 excluding taxes amounted to 693 USD/oz (-28% y/y).

**Diversification of the asset portfolio due to the launch of the Oksut project in Turkey.** Launch of Oksut in 2020 will increase the Company's production by an average of 110 koz of gold per year (+ 5%), and also will help to reduce the all-in sustaining costs (AISC - 490 USD/ounce), which will ensure the generation of free cash flow in the medium term and will facilitate geographical diversification. In 2019, the Company reduced capital investments in the project to 100 mln USD (-18.7%), and the total construction cost is projected at 200 mln USD before the launch of the project in 1Q2020. As of June 30, 2019 construction works were 64% complete, while gold production was planned for 1Q2020.

**Promising projects for the long-term development of the Company.** In January 2018, the Company acquired AuRico Metals, whose assets are represented by the Kemess Underground and Kemess East gold and copper deposits in Canada. Average annual production at the Kemess Underground project is projected at 106 koz of gold and 23.6 ktms of copper, at the Kemess East project - at 80 koz of gold and 26 ktms of copper. Duration of work is estimated at 12 years for each. The company intends to launch Kemess East after coming to the completion of the Kemess Underground project. Centerra Gold received permission from the authorities to build Kemess Underground in July 2018, however the Board of Directors of the Company has not yet decided to start construction. The Company invested about 14.2 mln USD (+ 158% y/y) at the end of 1H2019 in the development of Kemess projects.

**Upside potential for gold and copper.** According to statistics from the World Gold Council, in 1H2019 global demand for gold increased by 8% compared to 1H2018, which is due to an increase in gold reserves mainly by central banks in developing countries by 57% y/y. The inflow of investments in ETFs increased by 77% y/y, reaching 107.5 tons amid geopolitical uncertainty in the world, a decline in economic growth, and easing of monetary policy by leading world central banks. According to forecasts, gold price growth will continue due to volatility in the stock markets, the UK exit from the European Union and trade escalations between the US and China. In the market of industrial metals in the first 4 months of 2019 there was a shortage of refined copper in the amount of 150 ktms (International Copper Group), as well as a decrease in production (-1% y/y) due to reduced production and levels of grade of the largest producers - Chile (-3.2% y/y) and Indonesia (-50%). Demand for copper will be supported by investments in the development of new technologies, modern infrastructure, increasing consumption of environmentally friendly energy sources and the production of electric vehicles. In the long run, we expect prices to rise amid declining global supplies and increased demand from the industrial sector.

**New terms of a strategic agreement with the government of Kyrgyzstan.** The company agreed on new conditions, according to which it is obliged to make two one-time payments of 5 mln USD to the new Regional Development Fund after 5 working days and within the next 12 months from the date of the second agreement, monthly payments of 0.4% of the proceeds realized at Kumtor, annual payments of 1 mln USD to the Nature Development Fund, as well as financing of Kumtor exploration expenses

in the amount of at least 16 mln USD for 2 years. We note the continued political risk associated with the fulfillment of the terms of the agreement between Centerra Gold and the Kyrgyzstan’s government, which could affect Kumtor’s operations.

**Stable fundamental indicators.** We forecast an increase in revenue from gold and copper production by an average of 3% y/y and 11% y/y, respectively, in the period 2019-2026. Given the launch of Oksut and Kemess projects, the Company will be able to increase production by 21% in gold equivalent by the end of 2026. According to the Company data, in 2019 we pledge capital investments for development in the amount of USD 175 mln, taking into account the construction of Oksut, to maintain production in the amount of USD 100 mln, as well as overburden costs in Kumtor in the amount of USD 140 mln. According to our estimates, the Company will reduce the level of net debt by the end of 2025 (Net Debt / EBITDA will be 0.15x in 2025). The predicted AISC indicators, according to our calculations, will be 779 USD/oz for Mount Milligan (+ 2% y/y) and 676 USD / oz for Kumtor (-3% y/y) respectively. After the completion of the construction of Oksut and Kemess, the Company will be able to significantly increase free cash flows and reduce its debt.

Fig 1. Production growth in gold equivalent (GE koz) at current (Kumtor, Mount Milligan) and new deposits (Oksut, Kemess)

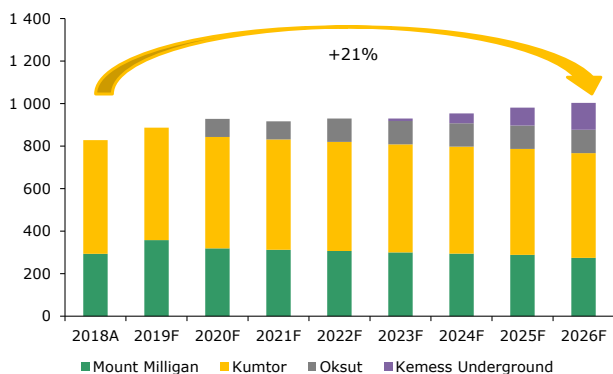


Fig 2. Portfolio of assets with low all-in sustaining costs (AISC, USD / oz)

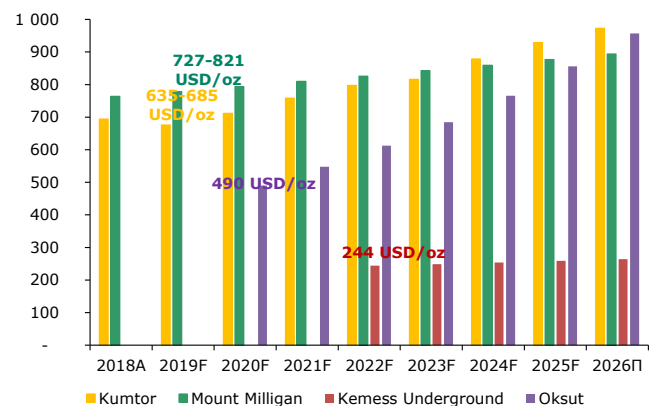


Fig 3. Projected increase in revenue from gold and copper sales (million USD)

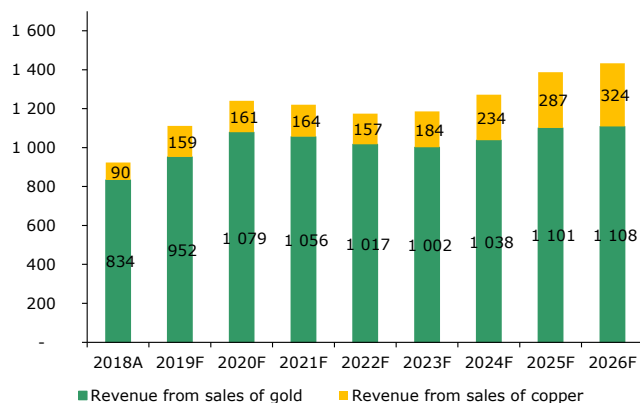
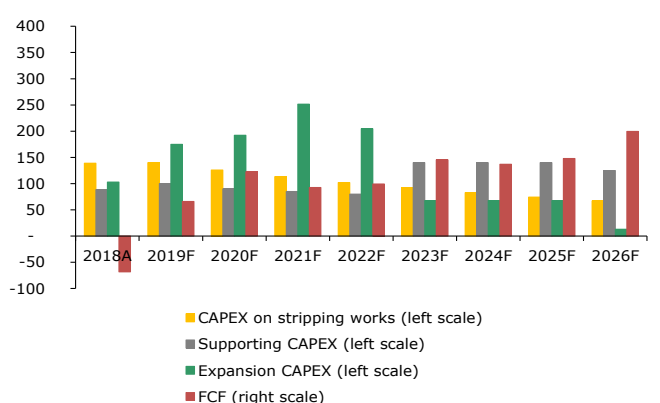


Fig 4. FCF growth with a decrease in CAPEX in current and new fields (mln USD)



Source: Centerra Gold data, Halyk Finance forecasts

Fig 5. We use conservative estimates for gold and copper prices for the period 2019-2023

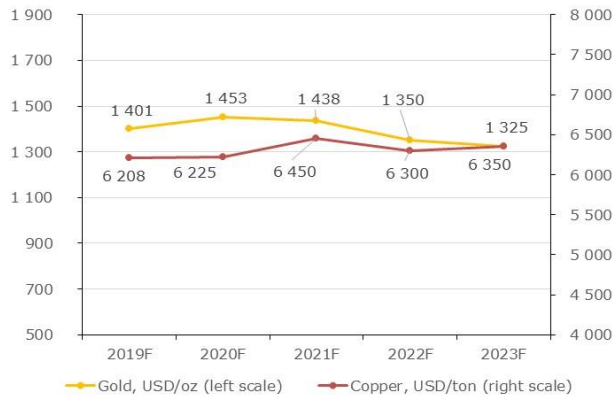


Fig 6. Reduction in net debt (USD million) and decrease in net debt / EBITDA with an increase in FCF (USD million)

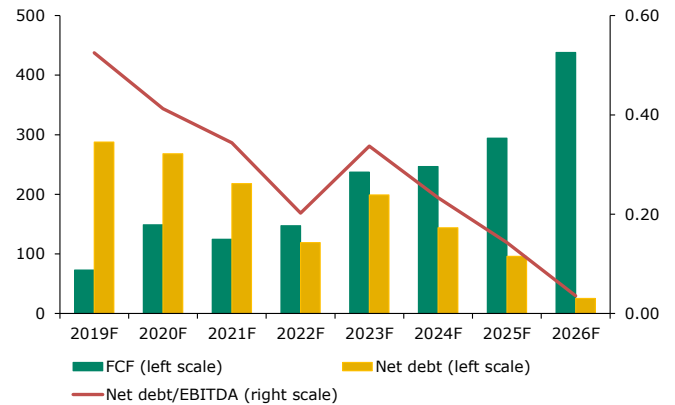


Fig 7. The proved and prospective gold and copper mineral resources of the Company as of 01.07.2019

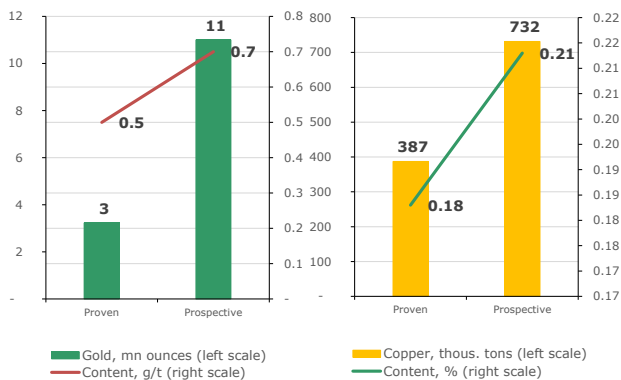


Fig 8. Growth in revenue (million USD) and production (million oz) with an increase in EBITDA margin (%) by 2026

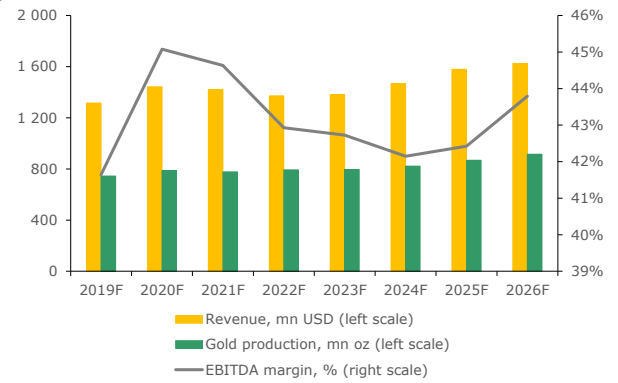


Fig 9. Financial and operating results, 1H2019

Mn USD	1H2019	1H2018	y/y
Revenue	674,5	478,7	41%
Cost of sales	461,9	340,2	36%
Operating profit	206,7	121,4	70%
<b>Net profit</b>	<b>83,8</b>	<b>52,6</b>	<b>59%</b>
Adjusted net profit	83,8	14,5	478%
Cash flow from operating activities	209,8	28,3	641%
AISC, including taxes, USD/oz	837,0	1 128,0	-26%
AISC, USD/ton	4 431,3	4 784,0	-7%
Supporting CAPEX	40,6	44,8	-9%
Expansion CAPEX	62,8	74,6	-16%
CAPEX on stripping works	38,5	86,3	-55%
Long-term loans and leasing obligations	90,6	257,5	-65%
Cash and cash equivalents, including limited funds	167,5	215,5	-22%
Gold production, thous. ounces	383 140	259 947	47%
Copper production, thous. tons	14,4	10,2	41%

Fig 10. Calculation of 12M target price, CAD/share

Mn USD	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	1 336	1 442	1 421	1 372	1 367	1 451	1 563	1 623
EBIT	340	401	366	299	275	302	354	413
" +Amortization"	226	249	268	290	302	301	300	298
" -Income tax"	48	57	52	42	39	44	53	61
" -Capital expenditures"	415	408	450	387	299	290	282	205
" -Change in net working capital"	16	35	8	13	11	35	39	8
<b>Free Cash Flows</b>	<b>87</b>	<b>150</b>	<b>125</b>	<b>147</b>	<b>226</b>	<b>234</b>	<b>281</b>	<b>437</b>
WACC	10,3%							
Free Cash Flows (PV)	79	123	93	99	138	130	141	199
Terminal value (PV)	2 436							
Enterprise value (EV)	3 438							
" -Net debt"	400							
Cost of equity share	3 038							
Number of shares, mn	292							
12M TP (CAD/share)	13,73							

Source: Centerra Gold data, Halyk Finance forecasts, Bloomberg

Appendix 1. Forecasts of financial indicators, USD mln, excluding values per share

Income Statement	2017A	2018A	2019F	2020F	2021F	2022F	2023F	2024F	2025F	2026F
Revenue	1 199	1 129	1 336	1 442	1 421	1 372	1 367	1 451	1 563	1 623
Cost of sales	700	786	779	834	853	883	905	961	1 021	1 026
<b>Gross income</b>	<b>499</b>	<b>343</b>	<b>557</b>	<b>608</b>	<b>568</b>	<b>490</b>	<b>462</b>	<b>490</b>	<b>542</b>	<b>598</b>
Revenue-based taxes	97	93	104	107	104	97	94	93	92	87
Other operating expenses	26	83	58	44	36	32	31	30	29	29
Pre-development costs	5	12	9	9	10	9	9	10	10	10
Exploration expenses and development expenses	11	22	15	16	18	16	17	17	17	17
Business combination acquisition and integration expenses	4	5	0	0	0	0	0	0	0	0
Corporate administration	38	30	31	32	33	35	37	38	40	42
Kyrgyz Republic settlement	60	0	0	0	0	0	0	0	0	0
<b>Operating profit</b>	<b>259</b>	<b>99</b>	<b>340</b>	<b>401</b>	<b>366</b>	<b>299</b>	<b>275</b>	<b>302</b>	<b>354</b>	<b>413</b>
Gain on sale of Royalty Portfolio	0	28	0	0	0	0	0	0	0	0
Other income, net	-3	2	5	1	1	1	0	1	1	1
Finance costs	30	30	23	18	18	15	10	5	0	0
<b>Earnings before income tax</b>	<b>232</b>	<b>99</b>	<b>322</b>	<b>384</b>	<b>349</b>	<b>285</b>	<b>265</b>	<b>297</b>	<b>355</b>	<b>414</b>
Income tax recovery/(Income tax)	20	15	-48	-57	-52	-42	-39	-44	-53	-61
<b>Net earnings from continuing operations</b>	<b>252</b>	<b>113</b>	<b>274</b>	<b>327</b>	<b>297</b>	<b>242</b>	<b>226</b>	<b>253</b>	<b>302</b>	<b>353</b>
Net loss from discontinued operations	-42	-6	0	0	0	0	0	0	0	0
<b>Net earnings</b>	<b>210</b>	<b>108</b>	<b>274</b>	<b>327</b>	<b>297</b>	<b>242</b>	<b>226</b>	<b>253</b>	<b>302</b>	<b>353</b>
Number of shares, thous	292	292	292	292	292	292	292	292	292	292
<b>Earnings per share (EPS)</b>	<b>0,86</b>	<b>0,39</b>	<b>0,94</b>	<b>1,12</b>	<b>1,02</b>	<b>0,83</b>	<b>0,77</b>	<b>0,87</b>	<b>1,03</b>	<b>1,21</b>
<b>Balance Sheet</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Fixed assets	1 674	1 886	2 075	2 234	2 416	2 513	2 510	2 499	2 481	2 388
Intangible assets	16	16	16	16	16	16	16	16	16	16
Restricted cash	1	28	28	28	28	28	28	28	28	28
Other assets	43	32	34	36	34	35	35	34	35	35
Reclamation deposits	27	31	36	37	41	44	46	50	53	56
Inventories	0	0	0	0	0	0	0	0	0	0
<b>Total non-current assets</b>	<b>1 760</b>	<b>1 993</b>	<b>2 188</b>	<b>2 351</b>	<b>2 534</b>	<b>2 635</b>	<b>2 635</b>	<b>2 627</b>	<b>2 612</b>	<b>2 522</b>
Cash and cash equivalents	416	152	67	72	71	69	68	73	78	81
Short-term investments	0	0	328	449	517	559	866	1 052	1 296	1 675
Restricted cash	0	0	0	0	0	0	0	0	0	0
Amounts receivable	64	60	71	76	75	73	72	77	83	86
Inventories	506	597	577	618	632	654	671	712	757	760
Prepaid expenses and other current assets	26	26	31	33	32	31	31	33	36	37
<b>Total current assets</b>	<b>1 012</b>	<b>834</b>	<b>1 073</b>	<b>1 249</b>	<b>1 327</b>	<b>1 386</b>	<b>1 709</b>	<b>1 947</b>	<b>2 250</b>	<b>2 639</b>
<b>Total assets</b>	<b>2 772</b>	<b>2 827</b>	<b>3 261</b>	<b>3 599</b>	<b>3 861</b>	<b>4 020</b>	<b>4 344</b>	<b>4 574</b>	<b>4 862</b>	<b>5 162</b>
Provision for reclamation	166	212	223	234	246	258	271	284	299	314
Lease obligations	0	4	4	4	4	4	4	4	4	4
Deferred income tax liability	0	45	45	45	45	45	45	45	45	45
Long-term debt	212	179	240	239	188	86	182	119	83	21
Other liabilities	11	4	4	4	4	4	4	4	4	4
<b>Total non-current liabilities</b>	<b>389</b>	<b>444</b>	<b>515</b>	<b>525</b>	<b>486</b>	<b>397</b>	<b>505</b>	<b>456</b>	<b>434</b>	<b>387</b>
Short-term debt	81	5	113	101	101	101	86	98	92	85
Accounts payable and accrued liabilities	182	174	187	201	205	212	218	231	246	247
Revenue-based taxes payable	16	1	21	21	21	19	19	19	18	17
Other current liabilities	76	54	0	0	0	0	0	0	0	0
Current portion of provision for reclamation	1	0	1	1	1	1	1	1	1	2
Taxes payable	3	1	1	1	1	1	1	1	1	1
<b>Total current liabilities</b>	<b>358</b>	<b>235</b>	<b>323</b>	<b>325</b>	<b>329</b>	<b>335</b>	<b>325</b>	<b>350</b>	<b>358</b>	<b>352</b>
<b>Total liabilities</b>	<b>747</b>	<b>679</b>	<b>839</b>	<b>850</b>	<b>815</b>	<b>732</b>	<b>830</b>	<b>806</b>	<b>792</b>	<b>739</b>
Share capital	948	949	949	949	949	949	949	949	949	949
Contributed surplus	26	27	27	27	27	27	27	27	27	27
Accumulated other comprehensive loss	-14	-2	-2	-2	-2	-2	-2	-2	-2	-2
Retained earnings	1 066	1 173	1 447	1 774	2 072	2 314	2 540	2 793	3 095	3 448
<b>Shareholders' equity</b>	<b>2 025</b>	<b>2 148</b>	<b>2 422</b>	<b>2 749</b>	<b>3 046</b>	<b>3 289</b>	<b>3 514</b>	<b>3 768</b>	<b>4 070</b>	<b>4 423</b>
<b>Total liabilities and shareholders' equity</b>	<b>2 772</b>	<b>2 827</b>	<b>3 261</b>	<b>3 599</b>	<b>3 861</b>	<b>4 020</b>	<b>4 344</b>	<b>4 574</b>	<b>4 862</b>	<b>5 162</b>
<b>Cash Flow Statement</b>	<b>2017A</b>	<b>2018A</b>	<b>2019F</b>	<b>2020F</b>	<b>2021F</b>	<b>2022F</b>	<b>2023F</b>	<b>2024F</b>	<b>2025F</b>	<b>2026F</b>
Cash flows from operating activities	501	217	184	445	518	501	229	350	330	276
Cash flows from investing activities	-11	-352	-415	-408	-450	-387	-299	-290	-282	-205
Cash flows from financial activities	-234	-130	146	-31	-69	-116	71	-56	-42	-68
<b>Net increase in cash</b>	<b>256</b>	<b>-264</b>	<b>-85</b>	<b>5</b>	<b>-1</b>	<b>-2</b>	<b>0</b>	<b>4</b>	<b>6</b>	<b>3</b>
<b>Cash and cash equivalents, end of period</b>	<b>416</b>	<b>152</b>	<b>67</b>	<b>72</b>	<b>71</b>	<b>69</b>	<b>68</b>	<b>73</b>	<b>78</b>	<b>81</b>

Sources: Company data, Halyk Finance

© 2019 Halyk Finance, a subsidiary of Halyk Bank.

For contact details see the information on Halyk Finance website [www.halykfinance.kz](http://www.halykfinance.kz) or contact Halyk Finance office. All rights reserved. This document and/or information has been prepared by and, except as otherwise specified herein, is communicated by Halyk Finance. This document is for information purposes only. Opinions and views expressed in this document do not necessarily represent the opinions and views held by Halyk Finance, or other subsidiaries of Halyk Bank. The differences of opinion stem from different assumptions, sources information, criteria and methodology of valuation. Information and opinions expressed herein are subject to change without notice; and neither Halyk Finance, or Halyk Bank, or any of its subsidiaries or affiliates are under any obligation to keep them current. This document is not an offer or an invitation to engage in investment activity. It cannot be relied upon as a representation that any particular transaction necessarily could have been or can be effected at the stated price. This document does not constitute an advertisement or an offer of securities, or related financial instruments. Descriptions of any company or companies or their securities or the markets or developments mentioned herein are not intended to be complete. Views and opinions expressed in this document cannot substitute for the exercise of own judgment and do not attempt to meet the specific investment objectives, financial situation or particular needs of any specific investor. The information and opinions herein have been arrived at based on information obtained from sources believed to be reliable and in good faith. Such sources have not been independently verified; information is provided on the basis and no representation or warranty, either expressed or implied, is provided in relation to the accuracy, completeness, reliability, merchantability or fitness for a particular purpose of such information and opinions, except with respect to information concerning Halyk Finance and its affiliates.

The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Options, derivative products and futures are not suitable for all investors and trading in these instruments is considered risky. Past performance is not necessarily indicative of future results. Foreign-currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or the price of, or income derived from, the investment. Halyk Finance and its affiliates, directors, representatives, employees, or clients may have or have had interests in issuers described herein. Halyk Finance may have or have had long or short positions in any of the securities or other financial instruments mentioned herein at any time and may make a purchase and/or sale, or offer to make a purchase and/or sale, of any such securities or other financial instruments at any time, as principal or agent. Halyk Finance and its affiliates may act or may have acted as market maker in the securities or other financial instruments described herein, or in securities underlying or related to such securities. Employees of Halyk Finance or its affiliates may serve or have served as officers or directors of the said companies. Halyk Finance and its affiliates may have or have had a relationship with or have provided investment banking, capital markets, advisory, investment management, and/or other financial services to the relevant companies. Halyk Finance relies on information barriers to avoid the appearance of conflict of interests within Halyk Finance or in its relations with clients, other issuers, and external investors.

The information herein is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Halyk Finance. Neither Halyk Finance nor any of its affiliates accepts any liability whatsoever for the actions of third parties in this respect. This information may not be used to create any financial instruments or products or any indices. Neither Halyk Finance, nor its affiliates, nor their directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of any information herein.

© 2019, All rights reserved

**Research Department**

Stanislav Chuyev	Head
Dmitriy Sheikin	Macroeconomics
Asan Kurmanbekov	Macroeconomics
Altynai Ibraimova	Equity
Aliya Assilbekova	Equity

**E-mail**

[s.chuyev@halykfinance.kz](mailto:s.chuyev@halykfinance.kz)  
[d.sheikin@halykfinance.kz](mailto:d.sheikin@halykfinance.kz)  
[a.kurmanbekov@halykfinance.kz](mailto:a.kurmanbekov@halykfinance.kz)  
[a.ibraimova@halykfinance.kz](mailto:a.ibraimova@halykfinance.kz)  
[a.assilbekova@halykfinance.kz](mailto:a.assilbekova@halykfinance.kz)

**Sales Department**

Mariya Pan	Head
Aizhan Moldakhmetova	Institutional
Shynar Zhakanova	Institutional
Dariya Maneyeva	Retail
Aziza Ordabayeva	Retail
Aliya Abdumazhitova	Retail

**E-mail**

[m.pan@halykfinance.kz](mailto:m.pan@halykfinance.kz)  
[a.moldakhmetova@halykfinance.kz](mailto:a.moldakhmetova@halykfinance.kz)  
[sh.zhakanova@halykfinance.kz](mailto:sh.zhakanova@halykfinance.kz)  
[d.maneyeva@halykfinance.kz](mailto:d.maneyeva@halykfinance.kz)  
[a.ordabayeva@halykfinance.kz](mailto:a.ordabayeva@halykfinance.kz)  
[a.abdumazhitova@halykfinance.kz](mailto:a.abdumazhitova@halykfinance.kz)

**Address:**

Halyk Finance  
Abay av, 109 «B», 5th fl.  
A05A1B9, Almaty, Kazakhstan  
Contact: +7 727 357 31 77  
[www.halykfinance.kz](http://www.halykfinance.kz)

**Bloomberg**

HLFN

**Thomson Reuters**

Halyk Finance

**Factset**

Halyk Finance

**Capital IQ**

Halyk Finance