

Metals and Mining Polymetal

Tair Baigunov

t.baigunov@halykfinance.kz

Increase of target price

December 13, 2019

	<u> </u>					
Ticker			POLY LN			
Recommendation	10.0010)		Buy			
Current price Gbp/share (11		1 190				
Target price (12 months), G	Gbp/share 1 38					
Upside potential	ı					
Ticker			POLY RX Buy			
Recommendation	10.0010)					
Current price RUB/share (11		980 1 155				
Target price (12 months), R						
Upside potential		18%				
Ticker			POLY AIX			
Recommendation			Buy			
Current price USD/share (11			15.7			
Target price (12 months), U	JSD/share		18.2			
Upside potential			16%			
Number of ordinary shares,		470				
Average daily turnover for 3M, thous USD		16 46				
Free float			64%			
Market capitalization, mn US	capitalization, mn USD 7					
Major shareholders:						
Mr Alexander Nesis			23.3%			
BANK OTKRITIE FINANCIAL	CORP		6.9%			
Mr Petr Kellner			5.1%			
BlackRock Inc			3.9%			
Financial indicators, mn USD	2019F	2020F	20215			
Revenue	2019F	2020F 2 447	2021F 2 482			
EBITDA	1 072	1 295	1 327			
Net income	632	761	791			
EPS	1.35	1.62	1.68			
Equity	1 982	2 333	2 658			
Net debt	1 584	1 465	1 247			
Multiples	2019F	2020F	2021F			
Net debt/EBITDA	1.5	1.1	0.9			
Net debt/Equity	0.8	0.6	0.5			
EV/SALES	4.5	4.2	4.1			
EV/EBITDA	9.5	7.8	7.7			
P/E	11.6	9.7	9.3			
P/B ROE	3.7 32%	3.2	2.8 30%			
	POLY LN	33%	30% TSE 350			
Price dynamics	POLT LN		mining			
1M	1%		-6%			
3M	25%		-4%			
12M	46%		4%			
Max 52 weeks	1 283		21 194			
Min 52 weeks	764		15 742			
150%						



Sources: Company data, Halyk Finance, Bloomberg

We confirm our Buy recommendation on Polymetal with 12M CP of 1,388 GBp per share: since our last report, the price of the company's shares has grown by 17%, breaking our previous target. Gold value in the third quarter of 2019 continued to increase (+ 6.4% qoq, + 23.7% yoy) amid news of a record increase in gold and foreign exchange reserves by central banks in developing countries, as well as uncertainty around the US and China bargains and a decrease in the forecast for global GDP growth. In addition, the company keep pleasantly surprise by its production results, having increased over 9M2019. Production in gold equivalent (GE) by 16% y / y to 1 232 thousand ounces. We assume that the company's production may exceed the originally planned level of 1,550 ounces of GE by approximately 5% by the end of 2019.

The results of 9M2019 allow us to hope for exceeding forecasts for the year. In the reporting period, the company increased its production in GE by 16% yoy to 1,232 thousand ounces. The total volume of processed ore at the company's enterprises amounted to 11.5 million tons, which is 1% higher than the same indicator for 9M2018. The partial depletion of some deposits (Albazino-Amursk) was offset by an increase in production in others (Kyzyl, Mayskoye, Vorontsovskoye). We assume that by the end of 2019, the company's production may exceed the originally planned level of 1,550 thousand ounces of GE up to 75 thousand ounces or about 5% due to an increase in the capacity of its Kazakhstani Kyzyl project while maintaining cash costs within the planned framework of \$ 600-650 / per ounce of GE.

Global political uncertainty supports demand for gold. Gold value in the third quarter of 2019 continued growth (+ 6.4% qoq, + 23.7% yoy) amid news of a record increase in gold and foreign exchange reserves by central banks of developing countries, as well as uncertainty around the US and China bargains and a decrease in the forecast for global GDP growth. More and more investment banks are recommending that their clients diversify their investment portfolio by increasing their share of gold, the price of which has grown by 6% since the beginning of the second half of the year and by 14.4% since the beginning of this year. The easing of monetary policy by the Fed pushed the price of gold to a maximum for 6 years in September this year. Analysts suggest that in subsequent years, the appetite of central banks for gold will not fade.

Since our previous report, the consensus forecast for current and medium-term market gold prices has been increased by an average of 8.3%, with the largest discrepancy in 2022 up by 20.8%.

A bet on the development of Kyzyl and Nezhdaninskoye projects will ensure medium-term production growth. In the short term, by 2023 it is expected that production at the Svetloye field will end, the falling volumes of which will be offset by reaching the design capacity of Nezhdaninskoye, as well as the launch of the Forecasted deposits in 2024 while maintaining capital expenditures at the level of \$ 400-450mln per year. Reaching planned capacity in 2019 of the largest project in the history of the company, Kyzyl, that is located in Kazakhstan, makes a significant contribution to the total production of gold while keeping a low cash cost of \$ 554 / ounce. The company reported an increase in Kyzyl's ore reserves by 18% to 8.5 million ounces in green matter with an average grade of 5.7g / ton.

Another promising and closest in terms of implementation project, with planned commissioning in 4Q2021, the fourth largest gold deposit in Russia - Nezhdaninskoye, with ore reserves of 4.4 million ounces and with an average grade of 3.6 g / ton of green matter.

Along with an increase in ore production, the company plans to expand the Amursk POX-2 aimed to increase the cost and reserves of refractory ores to a capacity of 250-300 thousand tons of concentrate per year and the transition to the processing of all refractory concentrate at its own facilities. It is assumed that the POX-2 project contributes to the growth of gold production up to 600 thousand tons per year (+ 37.5% of current volumes). In our forecasts, we are laying the plant's output at design capacity from 2023 to 2026.

Promising projects as a guarantee of further development. As of 09/30/19 the company conducted an updated assessment of the mineral resources of the Viksha field. According to the results of the assessment, the resources of the deposit amount to 5.7 million ounces in palladium equivalent. The palladium content in the



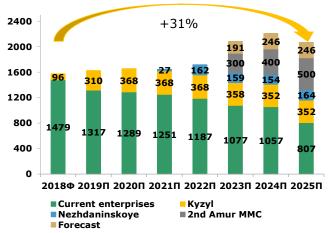
resources is estimated at 67%, platinum at 12% and gold at 10%. The completion of the feasibility study is expected in the first half of 2021.

As a result of geological exploration, a two-fold increase in the ore reserves of the Veduga deposit to 18.9 million tons (+ 120% to the previous estimate), a decrease in the average gold grade by 4% to 4.6 g / ton was established. As a result, the total gold volume at this deposit is expected to be 2.8 million ounces.

We do not include Viksha and Veduga fields in our assessment due to the lack of a feasibility study.

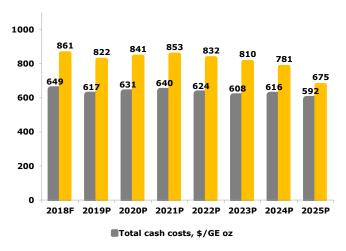
The main risks of the recommendation are operational and market. The most significant risk to the company's operations is market risk. Changes in the market conditions for gold prices have a big impact on Polymetal's production and financial results. Given the focus on the growth of precious metals mining, the Company is also exposed to production risk during the development / expansion of deposits. Although possible delays in the implementation of development projects may adversely affect the Company's operating results, the successful experience in commissioning the Kyzyl field and others indicates the company's ability to effectively control this risk.

Fig. 1. Stable production growth, GE koz



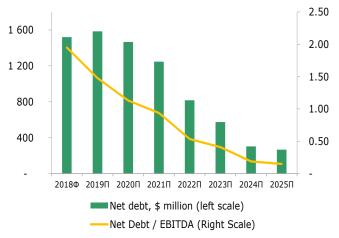
Source: Polymetal data, Halyk Finance forecasts

Fig. 2. Lower operating costs, \$ / GE oz



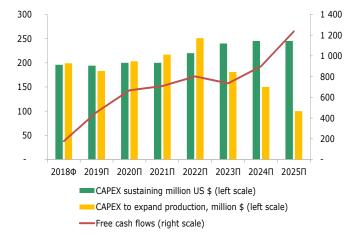
Source: Polymetal data, Halyk Finance forecasts

Fig. 3. Net debt (\$ million) and net debt / EBITDA



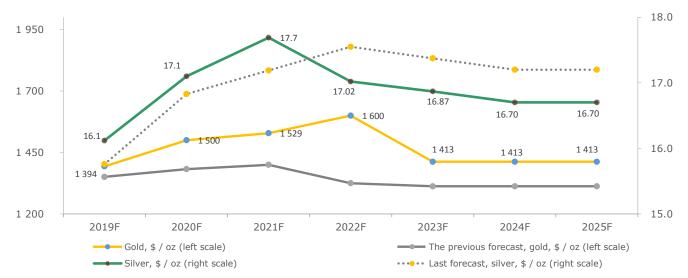
Source: Polymetal data, Halyk Finance forecasts

Fig. 4. FCF growth under the control of CAPEX, \$ million



Source: Polymetal data, Halyk Finance forecasts

Fig. 5. Forecast prices for gold and silver, in \$ / oz



Source: Bloomberg

Fig. 6. Calculation of 12M target price, GBp / share

Million \$	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenue	2 236	2 447	2 482	2 683	2 660	3 009	2 889
EBIT	847	997	1 017	1 198	1 068	1 269	1 435
"+Depreciation"	224	298	310	326	336	342	342
"-Income taxes"	158	190	198	238	214	255	289
"-Capital expenditures"	377	403	417	471	421	395	345
"-Change in working capital"	79	34	5	14	33	60	-93
Free cash flows	457	668	708	802	735	900	1 237
WACC	11%						
Free cash flows (PV)	412	542	517	527	434	479	593
Terminal value (PV)	6 660						
Enterprise value (EV)	10 163						
"-Net debt"	1 584						
Market value of equity	8 580						
Number of shares, mn	470						
12M TP, GBp/share	1 388						
6 5 1 1 1 1 1 1 1 1 5		•	·	•	•	·	

Source: Polymetal data, Halyk Finance forecasts



Appendix 1. Forecasts of financial indicators, \$ mln Income statement	, excludin 2017F	g values p	per share 2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenue	1 815	1 882	2 245	2 447	2 452	2 683	2 517	2 905	2 834
Cost of sales	-1 106	-1 096	-1 154	-1 202	-1 211	-1 232	-1 324	-1 451	-1 205
Gross profit	709	786	1 091	1 245	1 241	1 450	1 193	1 454	1 629
General and administrative expenses	-158	-175	-184	-192	-193	-197	-211	-232	-192
Other expenses	-44	-75	-52	-57	-61	-57	-58	-59	-58
Share in joint venture	3	1	1	1	1	1	1	1	1
Operating income	510	537	856	997	988	1 198	925	1 165	1 380
Profit / loss on disposal of subsidiaries	_	-54	_	_	_	_	_	_	_
Contingent liabilities	2	7	_	-	-	-	-	-	_
-									
Revaluation of the initial share in the acquisition / merger	-	41	-	-	-	-	-	-	-
Exchange difference	10	-40	-	-	-	-	-	-	-
Financial income	63	8	29	28	29	30	31	32	35
Financial expenses	4	-71	-86	-73	-59	-41	-28	-25	-27
Income (loss) before tax	443	428	799	951	959	1 187	929	1 172	1 388
Corporate income tax	-89	-71	-160	-190	-192	-237	-186	-234	-278
Profit / loss for the year	354	357	640	761	767	950	743	937	1 110
Number of shares, thousand	430	469 0.76	470	470	470	470	470	470	470
Earnings per share (EPS), GBp / share	0.82	0.76	1.36	1.62	1.63	2.02	1.58	1.99	2.36
Balance sheet	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Fixed assets	2 054	2 426	2 579	2 684	2 791	2 935	3 021	3 074	3 077
Goodwill	18	15	15	15	15	15	15	15	15
Investments in affiliated companies and joint ventures	96	2	2	2	2	2	2	2	2
Long-term loans and receivables	15	6	10	10	9	10	10	10	10
Long-term inventories	123	95	110	109	105	108	108	107	108
Deferred tax assets	61	73	57	64	65	62	63	63	63
Total non-current assets	2 367	2 617	2 774	2 884	2 986	3 132	3 219	3 271	3 274
Cash and cash equivalents	36	379	337	367	368	402	378	436	425
Short term investments	-	-	310	491	509	423	452	523	1 129
Trade receivables and other	71	81	97	105	106	115	108	125	122
Accounts receivable, VAT	96	95	84	92	90	89	90	90	89
Short-term inventories	514	537	565	589	593	604	648	711	590
Advance payments for income tax Assets Held for Sale	44	52 74	48	48 -	49 -	49 -	49 -	49 -	49 -
Total current assets	761	1 218	1 515	1 692	1 715	1 682	1 725	1 933	2 405
Total assets	3 128	3 835	4 289	4 576	4 701	4 814	4 944	5 204	5 679
Share capital	2 052	2 438	2 438	2 438	2 438	2 438	2 438	2 438	2 438
Share-based provisioning reserve	-		-	-	55	-	-	-	-
Currency translation reserve	-1 151	-1 599	-1 330	-1 360	-1 430	-1 373	-1 388	-1 397	-1 386
Retained earnings	406	540	860	1 240	1 624	2 099	2 470	2 939	3 494
Non-controlling interest	-	18	18	18	18	18	18	18	18
Total equity	1 307	1 397	1 985	2 336	2 650	3 181	3 538	3 998	4 564
Long-term loans and borrowings	1 430	1 782	1 802	1 569	1 119	773	504	650	592
Deferred tax liabilities	77	152	102	110	122	111	114	116	114
Other long-term liabilities	100	83	95	93	90	93	92	92	92
Total non-current liabilities	1 607	2 017	2 000	1 772	1 331	977	710	858	798
Short-term loans	26	117	117	263	500	446	469	104	108
Accounts payable	135	146	154	160	161	164	176	193	160
Contractual obligations Share repurchase obligation	-	100	-	-	-	-	-	-	-
Other current liabilities	- 53	- 58	-	-	-	-	-	-	-
Total current liabilities	214	421	304	468	721	656	695	349	318
Total liabilities	1 821	2 438	2 304	2 240	2 052	1 633	1 406	1 206	1 116
Total liabilities and equity	3 128	3 835	4 289	4 576	4 701	4 814	4 944	5 204	5 679
• •									
Cash flow statement	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Cash from operating activities	533	513	752	1 135	1 334	1 332	1 083	801	1 085
Cash from investing activities	-477	-379	-377	-403	-417	-421	-421	-395	-345
Cash from financing activities	-67	224	-417	-614	-834	-640	-640	-323	-613
Cashflow	-11	358	-41	119	84	22	22	83	127
Cash at the beginning of the period	48	36	379	337	367	402	402	378	436
The effect of changes in exchange rates Cash at the end of the period	-1 26	-15 270	227	267	260	270	270	126	425
Sources: Company Data, Halyk Finance	36	379	337	367	368	378	378	436	425
эвитсеэ. Сотрану Баса, пагук Ещапсе									





JSC «Halyk Finance» (hereinafter - HF), a subsidiary of JSC "Halyk Bank of Kazakhstan".

This publication is for informational purposes only and does not constitute an offer or attempt on the part of HF to buy, sell or enter into another transaction in respect of any securities and other financial instruments that may be referred to in this publication, to provide any investment recommendations or services. These offers may be sent solely in accordance with the requirements of applicable law. This publication is based on information that we believe to be reliable, but we do not claim that all information provided is absolutely accurate. At the same time, we note that past profitability is not an indicator of investment returns in the future. We are not responsible for the use by customers of the information contained in this publication, as well as for transactions and operations with securities and other financial instruments referred to in it. We do not undertake to regularly update the information contained in this publication or to correct possible inaccuracies. HF, its affiliates and officers, partners and employees, including those involved in the preparation and release of this material, reserve the right to participate in transactions with respect to securities and other financial instruments referred to in this publication. We also note that securities and other financial instruments considered in this publication and denominated in foreign currency may be affected by exchange rates. Changes in foreign exchange rates may cause a decrease in the value of investments in these assets. It should be borne in mind that investing in American depositary receipts is also exposed to the risk of a change in the exchange rate, and investing in Kazakhstani securities and other financial instruments has significant risk. In this regard, investors, before deciding to participate in transactions with securities and other financial instruments discussed in this publication, should conduct their own research on the reliability of issuers of these securities and other financial instruments.

This information is not intended for public distribution and cannot be reproduced, transmitted or published, in whole or in part, without the prior written permission of Halyk Finance JSC.

© 2019, All rights reserved

Research Department

Stanislav Chuyev Head
Assan Kurmanbekov Macroeconomics
Dmitriy Sheikin Macroeconomics
Zhansaya Kantayeva Fixed income
Tair Baigunov Equity
Madina Meterkulova Equity
Vladislav Benberin Equity

Sales Department

Mariya Pan Head
Moldakhmetova Aizhana Institutional
Asel Baizhanova Institutional
Zhanna Nuralina Retail
Shynar Zhakanova Retail
Alya Abdumazhitova Retail
Alya Mukhametzhanova Retail

Address:

Halyk Finance Avay av., 109 «B», 5th fl A05A1B4, Almaty, Kazakhstan Contact: +7 727 357 31 77 www.halykfinance.kz

E-mail

s.chuyev@halykfinance.kz a.kurmanbekov@halykfinance.kz d.sheikin@halykfinance.kz zh.kantayeva@halykfinance.kz t.baigunov@halykfinance.kz m.meterkulova@halykfinance.kz v.benberin@halykfinance.kz

E-mail

m.pan@halykfinance.kz
a.moldakhmetova@halykfinance.kz
a.baizhanova@halykfinance.kz
zh.nuralina@halykfinance.kz
sh.zhakanova@halykfinance.kz
a.abdumazhitova@halykfinance.kz
a.mukhametzhanova@halykfinance.kz

Bloomberg HLFN Thomson Reuters Halyk Finance Factset Halyk Finance Capital IQ Halyk Finance