

Increase of target price

Tair Baigunov

December 13, 2019

t.baigunov@halykfinance.kz

| POLY LN | | | |
|--|------------|-----------------|-------|
| Ticker | POLY LN | | |
| Recommendation | Buy | | |
| Current price Gbp/share (11.12.2019) | 1 190 | | |
| Target price (12 months), Gbp/share | 1 388 | | |
| Upside potential | 17% | | |
| POLY RX | | | |
| Ticker | POLY RX | | |
| Recommendation | Buy | | |
| Current price RUB/share (11.12.2019) | 980 | | |
| Target price (12 months), RUB/share | 1 155 | | |
| Upside potential | 18% | | |
| POLY AIX | | | |
| Ticker | POLY AIX | | |
| Recommendation | Buy | | |
| Current price USD/share (11.12.2019) | 15.7 | | |
| Target price (12 months), USD/share | 18.2 | | |
| Upside potential | 16% | | |
| Number of ordinary shares, mn | 470 | | |
| Average daily turnover for 3M, thous USD | 16 460 | | |
| Free float | 64% | | |
| Market capitalization, mn USD | 7 355 | | |
| 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 | 2021F |
| Revenue | 2 236 | 2 447 | 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 | 3.7 | 3.2 | 2.8 |
| ROE | 32% | 33% | 30% |
| Price dynamics | | | |
| | POLY LN | FTSE 350 mining | |
| 1M | 1% | -6% | |
| 3M | 25% | -4% | |
| 12M | 46% | 4% | |
| Max 52 weeks | 1 283 | 21 194 | |
| Min 52 weeks | 764 | 15 742 | |



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

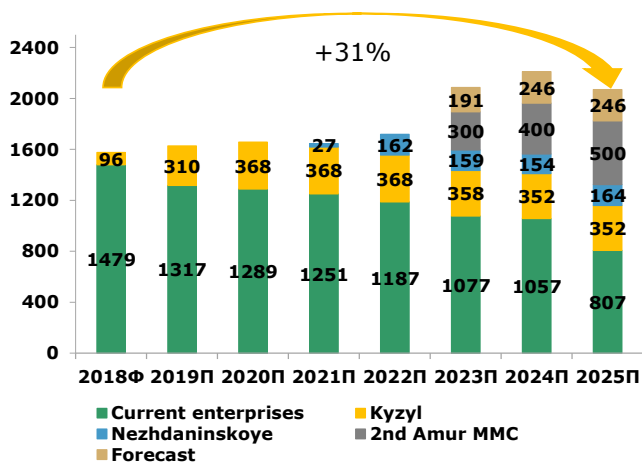
resources is estimated at 67%, platinum at 12% and gold at 10%. The completion of the feasibility study is expected in the first half of 2021.

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.

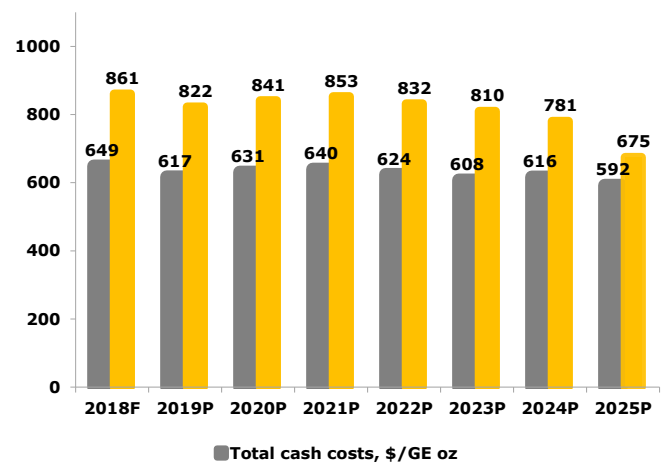
The main risks of the recommendation are operational and market. The most significant risk to the company's operations is market risk. Changes in the market conditions for gold prices have a big impact on Polymetal's production and financial results. Given the focus on the growth of precious metals mining, 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



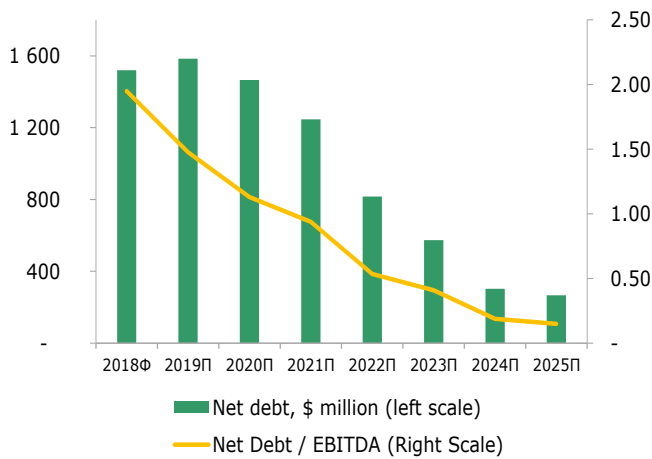
Source: Polymetal data, Halyk Finance forecasts

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



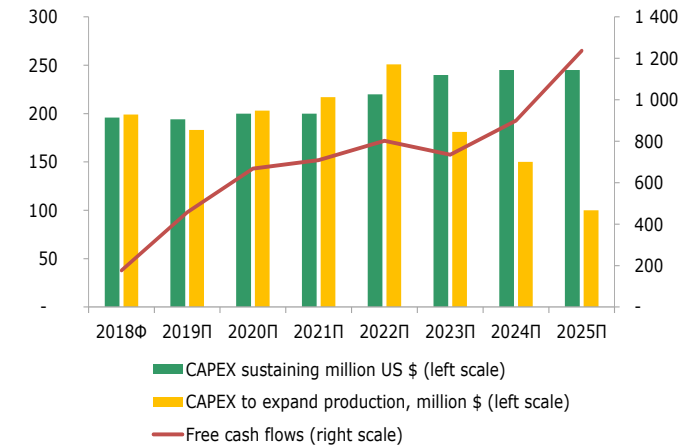
Source: Polymetal data, Halyk Finance forecasts

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



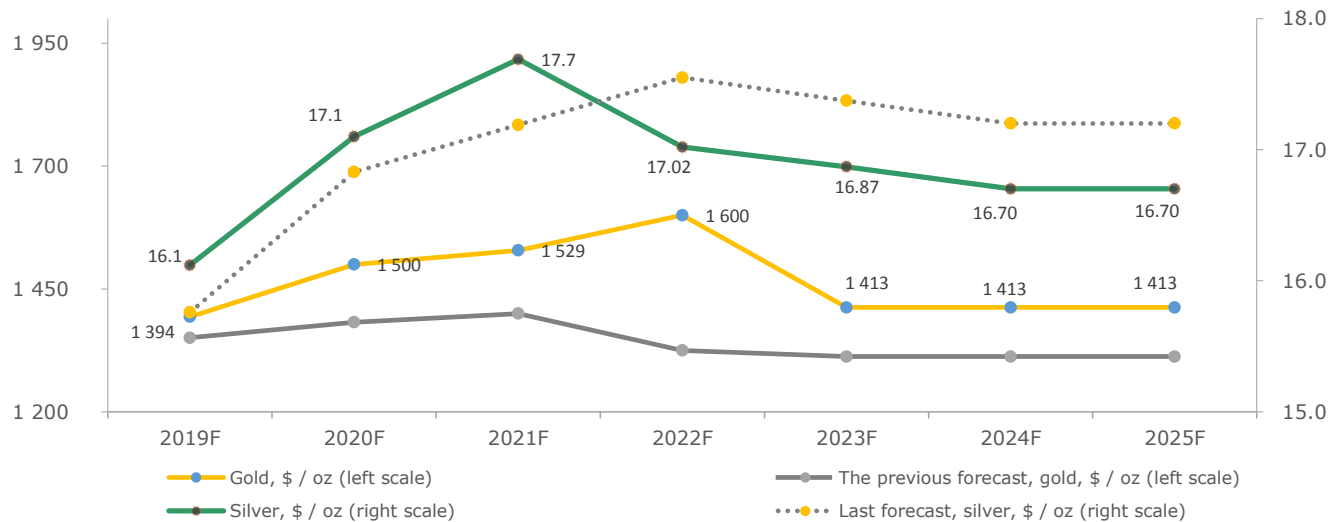
Source: Polymetal data, Halyk Finance forecasts

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 | | | | | | |

Source: Polymetal data, Halyk Finance forecasts

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

| Income statement | 2017F | 2018F | 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 | 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 | 44 | 52 | 48 | 48 | 49 | 49 | 49 | 49 | 49 |
| Assets Held for Sale | - | 74 | - | - | - | - | - | - | - |
| 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 | - | - | - | - | - | - | - | - | - |
| 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 | - | 100 | - | - | - | - | - | - | - |
| Share repurchase obligation | - | - | - | - | - | - | - | - | - |
| 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 | -1 | -15 | - | - | - | - | - | - | - |
| Cash at the end of the period | 36 | 379 | 337 | 367 | 368 | 378 | 378 | 436 | 425 |

Sources: Company Data, Halyk Finance

