

# Polymetal announces financial results for 2018 and ore reserves update

Aliya Assilbekova — March 12, 2019

The company's revenue for 2018 amounted to 1 882 mn USD (+ 4% y/y), with gold sales of 1 198 koz (+ 9% y/y) and silver sales of 25.7 mn oz (-3% y/y), which corresponds to the dynamics of the Company's production indicators. The growth in revenue was mainly due to an increase in gold equivalent production by 9% y/y. Cost of sales remained virtually unchanged and amounted to 1 096 mn USD (-0.9% y/y), reflecting the positive effect of the weakening of the Russian ruble by 7% y/y, which compensated for the growth in production and sales.

The average selling prices of gold and silver slightly decreased from the level of 2017, reaching 1 226 USD (-2% y/y) and 14.8 USD (-8% y/y) per oz, respectively. The all-in sustaining cash costs for the reporting period amounted to 861 USD per oz of gold equivalent (-4% y/y), which is less than the lower forecast value of the Company's costs of 875-925 USD. The continued weakening of the Russian ruble against the US dollar and high production results for 2018 (improved performance at Mayskoye and launch of Kyzyl) had a positive impact on the level of costs, offsetting domestic inflation.

In 2018, the capital expenditures amounted to 344 mn USD, which is 10% y/y lower compared with 2017 due to the completion of construction in Kyzyl. EBITDA fell by 6% y/y to 675 mn USD. Cash inflows from operating activities decreased by 4% y/y, reaching 513 mn USD against 533 mn USD in 2017. The Company's net profit increased by 0.3% y/y to USD 355 mn, adjusted net income was USD 447 mn, an increase of 19% y/y. As of December 31, 2018 Polymetal's net debt amounted to USD 1 520 mn, with net debt/EBITDA of 1.95 versus similar figures of USD 1 420 mn and 1.91 in 2017. At the suggestion of the Board of Directors, the final dividend for 2018 amounted to 0.48 USD per share. As a result, the total amount of dividends accrued for 2018 equal to 223 mn USD.

According to the updated estimate for 2018, the Company's ore reserves increased by 15% y/y and amount to 24 mn oz of gold equivalent due to the conversion of resources into reserves at Mayskoye and the completion of the updated estimate for Nezhda. The average grade in the ore reserves is 3.8 g/t gold equivalent, remaining one of the highest in the industry. Mineral resources increased by 44% y/y to 26.3 mn oz in gold equivalent (average grade increased by 8% y/y to 5.1 g/t gold equivalent) due to the initial assessment for the Prognoz, Kyzyl and Nezhda deposits.

The company has confirmed the production plan for 2019 and for 2020 at 1.55 mn oz and 1.6 mn oz of gold equivalent, as well as total cash cost projections (600-650 USD/oz) and all-in sustaining cash costs (800-850 USD/oz).

## Our opinion:

Overall, Polymetal's annual financial indicators for 2018 were within our forecasts. In 2018, the Company brought the Kyzyl project to production ramp-up and implements long-term development projects, generating free cash flows and paying significant dividends. The Company's total dividend (0.48 USD/share) exceeded our projected total dividend for 2018, which equaled to 0.38 USD per share. Given the stable operating performance and positive expectations for the gold prices, we retain our recommendation to **Hold** with 12M TP **860GBp/share** unchanged.

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