

Confirmation of recommendation to Buy

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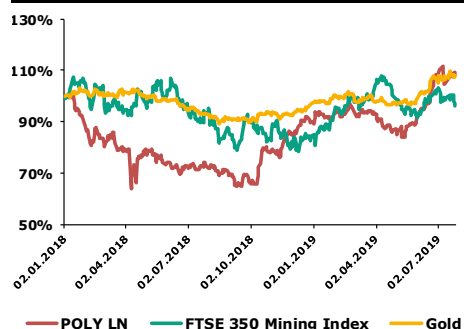
01 August 2019

Ticker	POLY LN
Recommendation	Buy
Current price GBP / share (31.07.2019)	996
Target price (12 months), GBP/share	1 131
Upside potential	14%
Ticker	POLY RX
Recommendation	Buy
Current price RUB/share (31.07.2019)	771
Target price (12 months), RUB/share	930
Upside potential	21%
Ticker	POLY ATX
Recommendation	Buy
Current price USD/share (31.07.2019)	12,2
Target price (12 months), USD/share	14,5
Upside potential	19%
Number of ordinary shares, mn	470
Average daily turnover for 3M, thous USD	15053
Free float	64%
Market capitalization, mn USD	5 992
Major shareholders:	
Mr Alexander Nesis	27,4%
Fodina B.V.	11,6%
BANK OTKRITIE FINANCIAL CORP	6,9%
Vitalbond Limited	5,6%

Financial indicators, mn USD			
	2019F	2020F	2021F
Revenue	2 085	2 227	2 258
EBITDA	967	1 079	1 107
Net income	548	587	612
EPS	1,17	1,25	1,30
Equity	1 940	2 203	2 440
Net debt	1 606	1 498	1 280

Multiples			
	2019F	2020F	2021F
Net debt/EBITDA	1,7	1,4	1,2
Net debt/Equity	0,8	0,7	0,5
EV/Sales	4,0	3,8	3,7
EV/EBITDA	8,7	7,8	7,6
P/E	10,9	10,2	9,8
P/B	3,1	2,7	2,5
ROE	28%	27%	25%

Price dynamics		
	POLY LN	FTSE 350 mining
1M	1%	-6%
3M	25%	-4%
12M	46%	4%
Max 52 weeks	1 031	27 715
Min 52 weeks	9 664	20 195



Sources: Company data, Halyk Finance, Bloomberg

We confirm our recommendation to Buy Polymetal's shares with 12M TP 1,131 GBP per share: the value of gold exceeded the maximum five-year level, increasing by 12% for the last 3 months. We believe that the uptrend in precious metal prices will continue to be stimulated by the increase of gold reserves of central banks, the preservation of geopolitical tensions, the easing of the monetary policy of the US Federal Reserve and the slowdown in world economic growth. In addition, in the 1H2019 the Company exceeded the planned indicators at the Kyzyl field in Kazakhstan and showed stable results on current mines, which does not exclude the possibility of over-fulfillment of the announced production plans for the year.

The rise in gold prices will continue. In 1H2019 gold prices have risen, reaching a maximum in July - USD1,446 per ounce. According to the forecasts of the World Gold Council for 2019, in the medium term the increase in global demand for gold will continue. The upward trend will be driven by the demand from central banks in developing countries, which will continue to increase gold reserves, and an increasing inflow of investments in ETFs against the backdrop of geopolitical uncertainty in the world, expectations of lowering the US Federal Reserve rate, and a slowdown in global economic growth.

Strong results for 1H2019 - a pledge of strong performance for the whole year. Production grew by 22% y/y, amounting to 756 koz in gold equivalent. The company confirms the current production plan in the volume of 1.55 mn oz in gold equivalent in 2019 and total cash costs (TCC) of USD600-650/oz of gold equivalent and all-in sustaining costs (AISC) of USD800-850/oz of gold equivalent. The Company expects a significantly higher production volume in 2H2019 due to the seasonal reduction of concentrate reserves at Mayskoye. As a result, we do not exclude over-fulfillment of the announced production plans for the year. Revenues increased by 13% y/y, reaching USD492 mn due to an increase in gold sales by 36% y/y. Net debt did not change and amounted to USD1,700 mn, while the Company expects a significant increase in cash flow in 2H2019 due to seasonal production growth and a reduction in working capital.

Attractive dividend yield of 6.7%. We expect that dividends by the results of 2019, based on the Company's net profit, will amount to 0.58 USD/share, which represents a dividend yield of 6.7% relative to the current price.

Kyzyl is a key driver of production growth. The Kyzyl field showed high production results due to the presence of soft near-surface rock with a high gold grade, due to which Kyzyl exceeded the design figures for ore content, productivity and production. According to the results of 1H2019, ore processing amounted to 988 ktons (+1 235% y/y) with an average recovery rate of 87.3% (1H2018: 41.7%). During the reporting period, the project produced 159.5 koz of gold (26.5% of the total production of Polymetal).

Focus on long-term development projects. The company focuses on large deposits with a long service life and high contents:

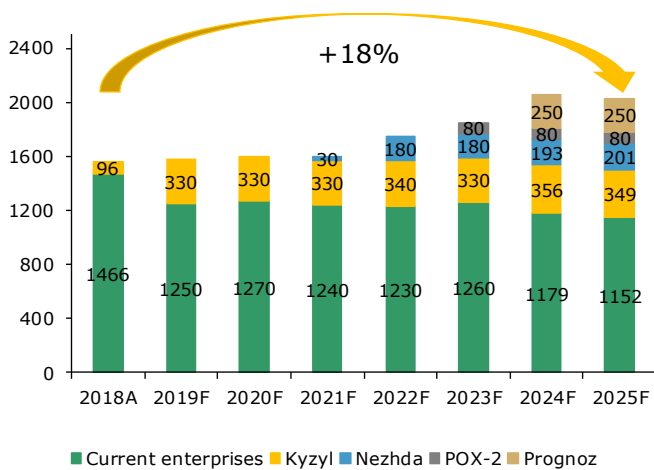
- Nezhda - an asset with a long service life, high gold grade in the ore (5.1 g/t) and low cost of production (total cash costs (TCC) will amount to 620-670 USD/oz, all-in sustaining costs (AISC) - 700-750 USD/oz). The average annual gold production will amount to 155 koz during the first fifteen years of operation. Commissioning is scheduled for 4Q2021.
- The construction of POX-2, which is of strategic importance for the Company, since it is expected that all refractory concentrate will be processed at its own production facilities, instead of being sold to third-party buyers against the background of tougher environmental requirements in China. Commissioning is planned for 3Q2023.
- Prognoz is one of the largest undeveloped primary silver deposits in Eurasia. According to the updated estimate, mineral resources amount to 256 mn oz of silver equivalent with a content of 789 g/t.
- Veduga is a refractory gold deposit with reserves of 1.4 mn oz of gold and a grade of 4.8 g/t, where additional mineral resources amount to 0.4 mn oz with a grade of 4.9 g/t.
- Viksha is one of the largest platinum group (PGM) deposits in the world, where

mineral resources amount to 9.5 mn oz in platinum equivalent, suitable for opencast mining.

We include the Nezhda, POX-2 fields and Prognoz in our assessment and do not take into account the projects Viksha and Veduga due to the lack of a feasibility study.

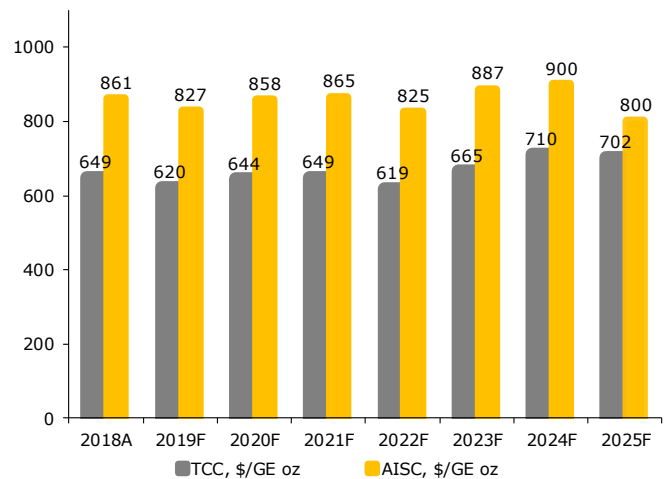
Stake on rising production and cost reduction. In our calculations, we updated the forecast prices for gold and operational data. We expect an increase in production in the medium term due to the launch of the POX-2 in 2023 and Nezhda in 2022 and reduction of the Company's total cash costs in 2019 up to ~ 620 USD/oz (-4% y/y) and all-in sustaining cash costs to ~827 USD/oz (-4%) due to low-cost production in Kyzyl and the sale of non-core assets with a high level of cost of production. The net debt of the Company, according to our calculations, will amount to USD1,606 mn with a projected ratio of net debt to EBITDA at the level of 1.7x (with a threshold value set by creditors below 2.5x). Capital costs for the expansion and maintenance of production in the period 2019-2025 will amount to RUB 2,319 mn.

Fig. 1. Steady production growth, GE koz



Source: Company data, Halyk Finance forecast

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



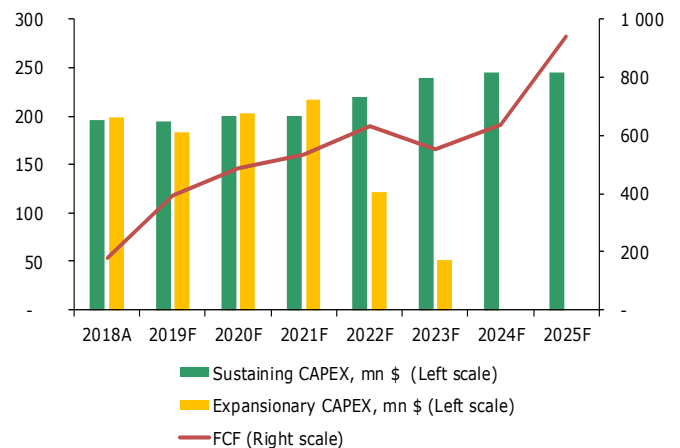
Source: Company data, Halyk Finance forecast

Fig. 3. Projected increase in mineral reserves at Kyzyl by ~ 69%, mn oz



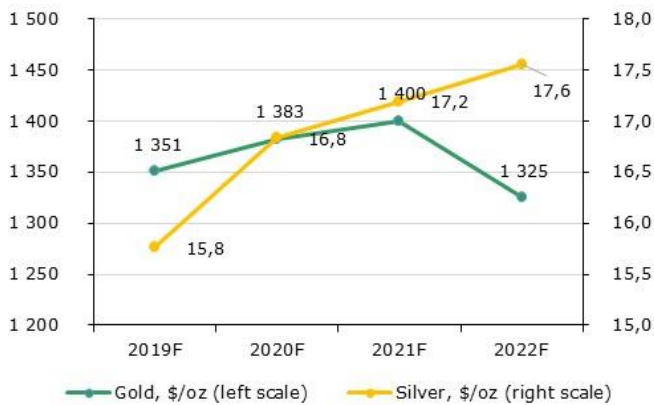
Source: Company data

Fig. 4. FCF growth under CAPEX control, mn \$



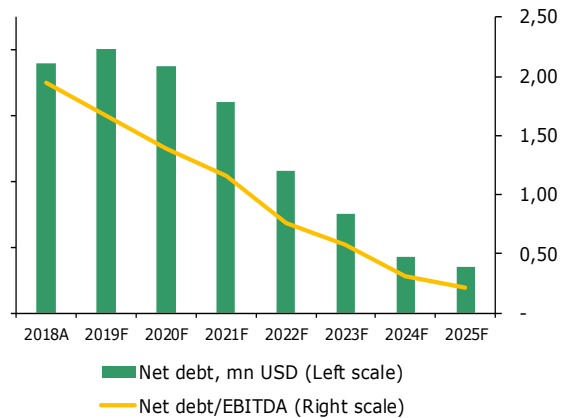
Source: Company data, Halyk Finance forecast

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



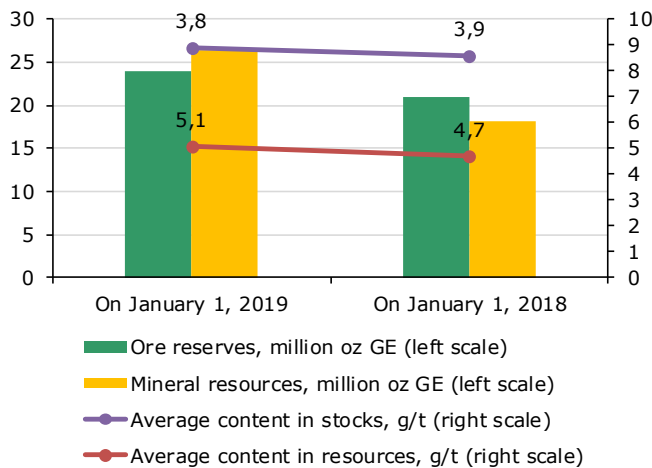
Source: Bloomberg

Fig. 6. Reduction in net debt (mn \$) and net debt / EBITDA



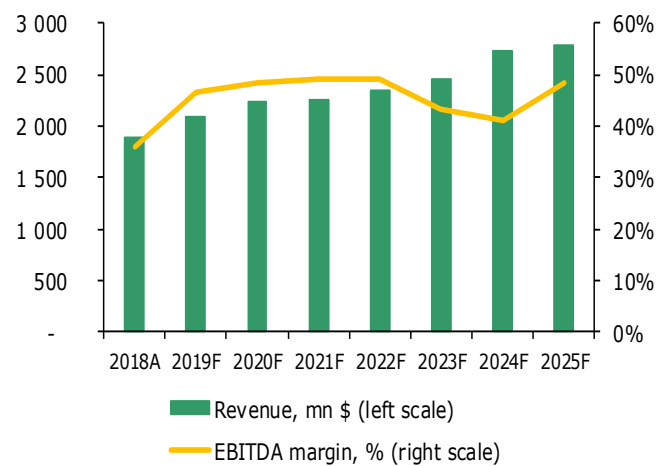
Source: Company data, Halyk Finance forecast

Fig. 7. The increase in ore and mineral reserves by 15% y/y and 45% y/y in 2019 respectively.



Source: Company data

Fig. 8. Metal prices and production volumes stimulate revenue growth (million \$) and EBITDA margin (%)



Source: Company data, Halyk Finance forecast

Fig.9. Financial results of Polymetal for 2018- 2017.

Financial results mn \$	2018	2017	y/y
Revenue	1 882	1 815	4%
Adjusted EBITDA	780	745	5%
Adjusted EBITDA margin	41%	41%	-
Total cash costs, \$/oz	649	658	-1%
All-in sustaining cash costs, \$/oz	861	893	-4%
Net income	355	354	0,3%
Adjusted net income	447	376	19%
Return on equity (adjusted), %	16%	16%	-
Return on assets, %	17%	18%	-
Net debt	1 520	1 420	7%
Net debt/adjusted EBITDA	1,95	1,91	2%
Capex	344	383	-10%
Free cash flows	176	143	23%

Source: Company data, Halyk Finance forecast

Fig.10. Estimation of 12M target price, GBP / share

	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenue	2 085	2 227	2 258	2 339	2 446	2 730	2 788
EBIT	742	781	797	838	748	821	1 049
"-Depreciation"	224	298	310	313	311	304	298
"-Income taxes"	137	147	153	165	150	165	211
"-Capital expenditures"	377	403	417	341	291	245	245
"-Change in working capital"	59	44	5	15	66	77	- 50
Free cash flows	394	486	532	630	552	638	941
WACC	11%						
Свободные денежные потоки (PV)	355	394	388	414	326	340	451
Terminal value (PV)	5 742						
Enterprise value (EV)	8 410						
"-Net debt"	1 606						
Market value of equity	6 804						
Number of shares, mn	470						
12M target price, GBP/share	1 131						

Appendix 1. Forecasts of financial indicators, \$ million, excluding share data

Profit and Loss Statement	2016A	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenue	1 583	1 815	1 882	2 085	2 227	2 258	2 339	2 446	2 730	2 788
COGS	-846	-1 106	-1 096	-1 114	-1 199	-1 208	-1 247	-1 415	-1 596	-1 451
Gross profit	737	709	786	971	1 029	1 050	1 092	1 031	1 134	1 337
General and administrative expenses	-120	-158	-175	-178	-191	-193	-199	-226	-255	-232
Other Expenses	-36	-44	-75	-52	-57	-61	-57	-58	-59	-58
Share in JV	-	3	1	1	1	1	1	1	1	1
Operating income	581	510	537	742	781	797	838	748	821	1 049
Loss on disposal of subsidiaries	-	-	-54	-	-	-	-	-	-	-
Contingent liabilities	-22	2	7	-	-	-	-	-	-	-
Revaluation of the initial share in the acquisition / merger of companies	-	-	41	-	-	-	-	-	-	-
Exchange difference	65	10	-40	-	-	-	-	-	-	-
Financial expenses	63	63	8	28	26	27	27	29	31	33
Financial income	3	4	-71	-86	-73	-59	-41	-28	-25	-27
Profit (loss) before tax	564	443	428	685	733	765	824	749	827	1 055
Taxes	-169	-89	-71	-137	-147	-153	-165	-150	-165	-211
Net profit	395	354	357	548	587	612	659	599	661	844
Number of shares, mln.	428	430	469	470	470	470	470	470	470	470
Earnings per share (EPS)	0,92	0,82	0,76	1,17	1,25	1,30	1,40	1,27	1,41	1,79

Balance sheet	2016A	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
PP&E	1 805	2 054	2 426	2 579	2 684	2 791	2 818	2 798	2 739	2 686
Goodwill and intangible assets	17	18	15	15	15	15	15	15	15	15
Investments	25	96	2	2	2	2	2	2	2	2
Long-term loans	10	15	6	10	10	9	10	10	10	10
Long-term inventory	113	123	95	110	109	105	108	108	107	108
Deferred tax assets	38	61	73	57	64	65	62	63	63	63
Total non-current assets	2 008	2 367	2 617	2 774	2 884	2 986	3 015	2 996	2 936	2 883
Cash	48	36	379	313	334	339	351	367	409	418
Short Term Investments	-	-	-	310	401	337	245	228	274	743
Receivables	70	71	81	90	96	97	101	105	117	120
Accounts receivable, VAT	61	96	95	84	92	90	89	90	90	89
Inventory	493	514	537	546	587	592	611	693	782	711
Advances	49	44	52	48	48	49	49	49	49	49
Assets held for sale	-	-	74	-	-	-	-	-	-	-
Total current assets	721	761	1 218	1 464	1 558	1 505	1 445	1 532	1 722	2 130
Total assets	2 729	3 128	3 835	4 238	4 443	4 491	4 461	4 529	4 658	5 013
Share capital	2 022	2 052	2 438	2 438	2 438	2 438	2 438	2 438	2 438	2 438
Shares buyback liabilities	-	-	-	-	-	-	-	-	-	-
Currency translation reserve	-1 241	-1 151	-1 599	-1 330	-1 360	-1 430	-1 373	-1 388	-1 397	-1 386
Retained earnings	200	406	540	814	1 107	1 413	1 743	2 043	2 373	2 795
Non-controlling interest	0	0	18	18	18	18	18	18	18	18
Total shareholders equity	981	1 307	1 397	1 940	2 203	2 440	2 826	3 111	3 432	3 865
Long-term loans	1 280	1 430	1 782	1 802	1 569	1 119	773	504	650	592
Deferred tax liabilities	78	77	152	102	110	122	111	114	116	114
Other long-term liabilities	103	100	83	95	93	90	93	92	92	92
Total long-term liabilities	1 461	1 607	2 017	2 000	1 772	1 331	977	710	858	798
Short-term loans	98	26	117	117	263	500	446	469	104	108
Accounts payable	133	135	146	148	160	161	166	188	213	193
Contractual obligations	-	-	100	-	-	-	-	-	-	-
Shares buyback liabilities	-	-	-	-	-	-	-	-	-	-
Other current liabilities	56	53	58	-	-	-	-	-	-	-
Total current liabilities	287	214	421	299	467	720	658	707	368	351
Total liabilities	1 748	1 821	2 438	2 298	2 239	2 051	1 635	1 418	1 226	1 148
Total liabilities and shareholders equity	2 729	3 128	3 835	4 238	4 443	4 491	4 461	4 529	4 658	5 013

Statement of cash flows	2016A	2017A	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Cash flow from operating activity	530	533	513	682	951	1 178	1 029	875	472	734
Cash flow from investing activity	-401	-477	-379	-377	-403	-417	-341	-291	-245	-245
Cash flow from financing activity	-134	-67	224	-371	-526	-756	-676	-568	-185	-480
Net change in cash	-5	-11	358	-66	21	5	12	16	43	9
Cash at the beginning of the period	52	48	36	379	313	334	339	351	367	409
The impact of changes in exchange rates	1	-1	-15	-	-	-	-	-	-	-
Cash at the end of the period	48	36	379	313	334	339	351	367	409	418

Sources: Company data, Halyk Finance

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