

Polymetal's operating results for 1H2019

Aliya Assilbekova — July 25, 2019

According to the results of 1H2019, the Company produced 756 koz of gold equivalent (+ 22% y/y), including 602 koz of gold (+ 35% y/y) and 11 mn oz of silver (-14% y/y). In 1H2019, major increase up to 99 koz of gold equivalent (+ 15% y/y) occurred in the production at the Omolon field, at the Varvarinskoye enterprise up to 76 koz (+ 16% y/y) and at the Svetloye up to 61 koz (+ 15% y/y).

In 1H2019, a significant increase in the gold production at Omolon (+ 24%) occurred due to the processing of ore from the Olcha deposit with a high grade in 1Q2019. Despite the rainfall at Svetloye, which had a negative effect on the metal grade in the ore processed, production growth amounted to 61 koz of gold (+ 15% y/y). An increase in gold production at Varvarinskoye was facilitated by an increase in the volume of ore processed (+ 9% y/y), transported from the Komarovskoye field, which was reflected in the improvement of maintenance and recovery.

In 2H2019, production growth is expected due to the sale of concentrate reserves at Mayskoye and increase in production at the Kyzyl field. In 2Q2019, due to the higher gold grade (6.7 g/t in 1H2019, versus 2.5 g/t in 2H2018), Kyzyl exceeded the production capacity, grade and production output. Semi-annual gold production reached 159.5 koz, while gold production in concentrate was 187.4 koz.

The Company has confirmed the production plan for 2019 at the amount of 1.55 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).

Revenue increased by 13% in 2Q2019 and amounted to USD 492 mn due to the growth in gold sales by 31% due to high production volumes. Sales of silver decreased by 22% due to a temporary backlog of sales from production, which will be eliminated in 2H2019.

Our opinion:

Dynamics of production performance meets our expectations. According to our estimates, in addition to a significant increase in production due to the sale of reserves at Mayskoye and the over-fulfillment of project indicators at Kyzyl in 2H2019, a significant increase in production will occur at Varvarinskoye, Omolon and Svetloye. Due to the achievement of our target price for Polymetal's shares, we put our recommendation **under review**.

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