

Polymetal announced production results for 2018

Aliya Assilbekova — February 01, 2019

According to 2018 production results, the Company produced 1,562mln oz of gold equivalent (+9% y/y), including 1,198mln of gold (+9% y/y), 25,7mln oz of silver (-3% y/y), 3,3ktons of copper (+27% y/y) and 5,6ktons of zinc (+19% y/y). The Company's revenue increased by 4% y/y and amounted to USD1 882mln. The major increase in production was attributable to Svetloye plant with the production amounting to 136 koz of gold equivalent (+28% y/y), Albazino-Amursk and Varvara hub, where the production reached 308koz of gold equivalent (+14% y/y) and 142koz of gold equivalent (+9% y/y), equivalently.

Although there was reduction in the average grade at Svetloye, it delivered solid yearly results due to the higher stacking volumes. The increase in the production at Albazino-Amursk was the result of higher processing volumes and improved underground mine productivity due to the new mining method, which had a positive impact on grades that offset slightly lower recovery levels. At Amursk POX, the debottlenecking project was completed successfully with all new sections operating at full capacity. In 4Q2018, the Amursk POX began to process Kyzyl concentrate, achieving the recovery rate of 96%. At Varvara hub, an increase in production was driven by growing processing volumes of ore as Komar deposit's capacity improved and that positively affected gold recoveries.

From the initial launch of Kyzyl project in June 2018, the annual production of gold reached 96koz of gold as opposed to the original production plan of 80koz of gold and the production of gold concentrate amounted to 134 koz. The overfulfillment of the production plan is attributable to the softer nature of the rock and the presence of small high-grade ore pods.

The Company reiterates its current production guidance of 1,55mln oz of gold equivalent and 1,6mln oz of gold equivalent. The Company also forecasts its total cash costs to be in the range of 600-650 USD/oz and all-in sustaining cash costs to average 800-850 USD/oz. The anticipated decrease in costs will be driven by the increasing share of low cost production from Kyzyl and disposal of high-cost Kapan and Okhotsk.

At Nezhda, following the Board of Directors' approval and the related government approvals, open-pit mining and construction have commenced.

Our opinion:

The dynamics of the production indicators of Polymetal meets our expectations. The annual increase in Polymetal's production at the current deposits was mainly attributable to Svetlyoe plant, Albazino-Amursk and Varvara hub. As of 2H2018, the Company has substantially increased the gold production as the result of the ramp-up of Kyzyl. Due to the accomplishment of production plans by the Company and the anticipated increase in the metals' prices in 2019, we maintain our **Hold** recommendation with 12M TP **860 GBp/share**.

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