

## Q3 Trading Update

### POG LN

21 October 2019

Market Capitalisation: US\$410m

Enterprise Value: US\$967m

Last price: 9.6p

Target Price: 16p

### Benefit of the POX Plant Increasingly Visible

Petropavlovsk PLC (LSE: POG) has released its Q3 trading update this morning. Overall the results show that the company remains on track to hit full year production targets of 450koz – 500koz with additional upside from processing of 3<sup>rd</sup> party concentrates. With POX operations now in full swing the company was able to deliver strong growth recording a 66% increase in total gold production to 136koz (YTD 368koz) of which 48koz were from the processing of refractory ore (18koz coming from third party sources). It is likely next quarter sales will be up again as the company continues to process higher grade third party concentrate and realise gold in circuit, on top of the existing supply (we were also impressed with the recovery rates at the POX plant which are stabilising at 95%).

The organic benefits of POX to the bottom line of the P&L will only be fully captured, however, when it is 100% supplied with their own concentrate. To that end, the company is moving quickly to build a second flotation circuit at Pioneer that comes online in Q4/2020. Generally though the structural integrity of the investment case is improving, as recognised by an upgrade of outlook to positive by S&P Global Ratings. We maintain our price target of 16p with confidence.

The key metrics are as follows:

Figure 1 – Petropavlovsk Doré Production by Operation

Gold Production	Q3/2019	Q2/2019	Δ	Q3/2018	Δ	2019 YTD	Tamesis 2019E	% of YTD
Pioneer	30.8	30.8	-	30.2	2%	83.7	118.8	70%
Malomir	39.5	48.6	(19%)	13.00	204%	139.5	173.3	81%
Albyn	47.0	37.9	24%	38.5	22%	126.2	162.8	78%
<b>Hard Rock Operations</b>	<b>117.3</b>	<b>117.3</b>	<b>-</b>	<b>81.7</b>	<b>44%</b>	<b>349.4</b>	<b>454.8</b>	<b>77%</b>
Third Party Concentrates*	18.4	0	>100%	0	>100%	18.4	37.5	49%
<b>Total</b>	<b>135.7</b>	<b>117.3</b>	<b>16%</b>	<b>81.7</b>	<b>66%</b>	<b>367.8</b>	<b>492.3</b>	<b>75%</b>

\*Includes gold in circuit

Source: Petropavlovsk, Tamesis

### Malomir and POX hub – exceptionally strong start processing refractory ores

Production was up 204% quarter-on-quarter as a result of commissioning of the POX circuit. The flotation plant looks to be operating well, with throughput marginally lower than our forecast and the remaining capacity used for the resin-in-pulp circuit (as seen by higher throughput, balanced by lower grades and recoveries). Processed grades at the flotation plant were higher than expected at 1.2g/t Au, although the overall concentrate grade was slightly lower than expected – perhaps as a result of trialling different materials through the plant during the quarter. We are confident that the plant is able to produce 30+g/t concentrate at steady state.

Encouragingly, overall recoveries of 88% were above our commissioning forecast of 84%. The company is reportedly achieving improved recoveries of up to 94% in June, indicating further upside potential.

The first batch of third party concentrates performed well, producing 18.4koz (including gold in circuit) at recoveries of 95%. Petropavlovsk has commenced treating further third party concentrates subsequent to the end of the reporting period – we look forward to seeing the economic impact this may bring.

### Albyn – production base shifts

Albyn shows that it continues to be the flagship non-refractory asset for the company, with overperforming throughput grades and top tier recoveries of 94% as the main Albyn pit ramps down and production shifts to the Elginskoye pit from 2020. We expect a strong end to 2019, as mining volumes were up 90% quarter-on-quarter at average grades of 1.2g/t.

## **Pioneer – awaiting new flotation plant**

Throughput was below expectations at Pioneer due to a lack of availability of non-refractory ores, particularly at the Yuzhniy and Kulisnaya pits. The approval of the flotation plant at Pioneer is critical for the mine, and we expect mining to transition to mining primary refractory ores as the plant moves closer to commissioning. On our recent site visit we saw a number of pits lying dormant and we know the geologists are excited by the refractory potential here.

## **Tamesis Partners LLP**

125 Old Broad St | London EC2N 1AR

[www.tamesispartners.com](http://www.tamesispartners.com)

**David Butler** | [dbutler@tamesispartners.com](mailto:dbutler@tamesispartners.com) | +44 203 882 8422

**David Baker** | [dbaker@tamesispartners.com](mailto:dbaker@tamesispartners.com) | +44 203 882 9259

**Charlie Bendon** | [cbendon@tamesispartners.com](mailto:cbendon@tamesispartners.com) | +44 203 882 0532

**Charles Vaughan** | [cvaughan@tamesispartners.com](mailto:cvaughan@tamesispartners.com) | +44 203 882 8276

**Richard Greenfield** | [rgreenfield@tamesispartners.com](mailto:rgreenfield@tamesispartners.com) | +44 203 882 0712

**Mitch Limb** | [mlimb@tamesispartners.com](mailto:mlimb@tamesispartners.com) | +44 203 882 2868

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