

Trading update resets the clock

POG LN

30th July 2018

Last price: 6.9p
Target price: 13p

Trading update reveals impact of H1 leadership vacuum

Petropavlovsk has released its H1 trading update. Generally, the production numbers and guidance confirm the concern that the leadership issues suffered by the company in H1 2018 would affect production (production guidance for 2018 lowered by c.8%). As new Chairman, Sir Roderick Lyne, states; "we have worked hard over the past four weeks to stabilise and restore momentum to the Group after a difficult year".

The key points in the trading update are:

- Production for H1 2018 came in at 201,400oz vs 232,400oz in H1 2017. There was a similar decrease in sales. This was mainly down to lower grades processed and a decrease in the contribution from gold in circuit.
- Guidance for the year lowered to a range of 400,000 to 410,000oz (vs Tamesis estimate of 429koz). There is a clear message that operations lost momentum with the leadership changes that occurred. The statement refers to recent disruptions and an operational review underway "to optimise mining and maximize margins". The company has also removed any contribution from POX. As a result, cost guidance has been lifted to "15-20% above previous guidance" which was US\$700-750/oz (at an exchange rate of 58). Capex guidance retained at US\$105 million.
- The guidance for the timing on commissioning of POX has been pushed back from Q4 2018 to December 2018 hence management removing any contribution for 2018 guidance. Again, the company refers to optimization plans.
- The company has also appointed a new CFO – Alexey Dubynin – who has been with the company since 2012 and a new Non-Executive Director; Mr Bektas Mukazharov. Mr Mukazharov works with major shareholder, Kenges Rakishev, who is a major shareholder in Petropavlovsk through Fincraft Holdings.

Investment Case Intact

As we point out every time we write on Petropavlosk there is a strong investment case at its core that, if anything, should benefit from the recent management changes and ongoing review of operations headed by Mr Maslovskiy. The key aspects of this remain:

- A virtual monopoly on the prospective Amur region where the company has so far discovered 32.1Moz of gold resource.
- An engine room of 400koz+ of production with growth to be delivered through the arrival of POX and a developing programme of higher grade, underground operations.
- A potential catalyst in the ongoing improvement at its 31% owned IRC iron ore business including the potential removal of the guarantee on its debt.
- A change in the capex profile post POX that will allow cashflow and then dividends

Valuation Discussion

The valuation remains attractive. We have changed our forecasts to take into account the trading update, gold price and currency devaluation. The shares are now trading on a P/NPV of 0.5x using a 12% discount rate, a 2019 PER multiple of 10.1x and EV/EBITDA of 4.2x. We reduce our price target to 13p, from 14p, to reflect the loss of production and higher costs for 2018 but look forward to earnings contributions from POX sales in 2019, stronger cashflow and a more settled operation.

Analyst: David Butler

Summary

Last price:	6.9p
Target price (GBP)	13p
Projected return (%)	86%

Project Details

Project name	Amur Region
Commodity	Gold
Production (koz Au)	c.400
Operating NPV _{11.6%} (US\$m)	1,680
Company NAV _{11.6%} (US\$m)	612

Share Data

Shares o/s* (mm)	3,302
52 week high/low (GBP)	0.06 / 0.09
3-mth avg. daily vol (mm)	5.0
3-mth avg. daily vol (GBPm)	0.4
Market cap (US\$m)	307
Net cash/(debt)* (US\$m)	(585)
Enterprise value (US\$m)	946

Financial Data	2018	2019	2020
Revenue	562	689	691
EBITDA	136	221	230
Net income	-49	33	53
EPS	-0.04	0.01	0.02
P/E	-	10.1	6.4
EV/EBITDA	6.8	4.2	4.0

Share Price Performance



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