

## Flash: IRC Loan Refinancing

### POG LN

19 December 2018

Market Capitalisation: US\$250m

Last price: 5.93p

Enterprise Value: US\$819m

Target Price: 14.00p

Petropavlovsk PLC (LSE: POG) has announced that its 31.1% owned subsidiary IRC Limited (HKG: 1029) has entered into a new US\$240 million facility with Gazprombank to refinance its existing facility with ICBC, of which Petropavlovsk is the guarantor. In addition, Petropavlovsk has agreed to extend a further bridge loan of US\$27 million to IRC in addition to the US\$30 million bridge loan provided in June 2018.

### IRC Loan Refinancing

IRC has refinanced its existing ICBC facility with a new US\$240 million facility with Gazprombank which will mature in 2026, comprised of a US\$160 million tranche with interest at LIBOR plus 5.7%, amortising over the life of the facility, and a US\$80 million with interest at 7.7% which is repayable at the end of the facility term. The company notes that the terms of the new facility are more favourable than the existing ICBC facility.

The proceeds will be used primarily to repay the US\$169 million outstanding on the ICBC facility following the 20 December coupon payment, and repayments to Petropavlovsk of the bridge loan and outstanding guarantee fees. Petropavlovsk has an existing relationship with Gazprombank, who agreed to buy 96,000 oz of gold in a forward sale earlier in the year.

### Petropavlovsk's Facility Guarantee

Petropavlovsk's guarantee of the IRC facility will be transferred to the new facility, initially comprising a US\$120 million Corporate guarantee, and three sequential US\$40 million guarantees every 2 years, as the facility is amortised. The initial US\$120 million Corporate Guarantee is able to be removed if certain operational conditions at IRC's K&S mine are met, which is expected to be achieved within two to three years.

There will also be a final US\$120 million guarantee in the final year of the facility to cover the final principal and interest payments. Effectively this should reduce Petropavlovsk's guarantee on the new facility to US\$40 million once IRC's mine reaches steady state production and the corporate guarantee is removed, and US\$160 million in the final year of the facility in 2025-2026.

### Bridge Loan

Petropavlovsk has agreed to provide IRC with a further US\$27 million bridge loan at an interest rate of 16% to allow IRC to service the principal and interest payment on the ICBC facility due 20 December 2018. Petropavlovsk has also agreed to extend the maturity of the existing US\$30 million bridge to 21 March 2019, to be repaid with interest on the completion of the new Gazprombank facility and approximately US\$6 million in outstanding guarantee fees.

### Valuation

The refinancing of the ICBC loan comes at a welcome time for Petropavlovsk as the company completes the primary capital expenditure on the POX hub and first gold pour expected imminently. The repayment of the bridge loan and outstanding guarantee fees on completion of the facility refinancing should provide welcome cashflow as the company looks to commission the second autoclave and move towards steady state production at the POX hub.

We value Petropavlovsk at 14p/share using a sum of the parts DCF.

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