

Kopy Goldfields

H1 results

Maintaining full year guidance, growth on track

Metals & mining

Despite a challenging Q1 following a COVID-19 outbreak at Yubileyniy in December 2020, Kopy Goldfields reported a competent set of H1 results, with EBITDA of US\$14.0m (H120: US\$17.8m) giving an EBITDA margin of 38% despite production down 14% y-o-y. Costs were well contained at US\$859/oz (H120: US\$861/oz). Kopy expects higher H2 production driven by the ramp-up of heap leach and placer operations and commissioning of Yubileyniy expansion. FY21 production guidance remains 56–59koz.

Year end	Revenue (US\$m)	PBT* (US\$m)	EBITDA (US\$m)	EPS* (c)	EV/EBITDA (x)	P/E (x)
12/19	70.1	14.0	27.3	1.5	8.7	14.5
12/20	98.8	27.6	45.6	2.7	5.2	8.0
12/21e	102.5	26.2	42.2	2.3	6.1	9.4
12/22e	150.3	52.9	72.6	4.6	3.2	4.7

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Maintaining full-year guidance despite Q1 hiccup

Kopy Goldfields' H1 production was down 14% y-o-y to 20.7 gold-equivalent koz following the impact of a December 2020 COVID-19 outbreak at Yubileyniy, which hampered operations in Q1. However, the company expects increased production in H221 compared to H220 driven by the commissioning of the second Yubileyniy plant in Q421 and higher production from heap leach and placer operations. Kopy Goldfields has maintained 2021 production guidance at 56–59koz and we now forecast production at the lower end of that range (from 59koz previously).

Longer-term outlook unchanged: Growing to 100koz

Kopy Goldfields management has set an organic growth target to reach 100koz per annum of gold production by FY25 driven by the expansion of the plant at Yubileyniy, a new heap leach at Perevalnoe (commissioning by year end) and a new mine at Malyutka (from 2023). With two of those three projects set to come online before the end of this year, the company should start to see greater recognition of the strength of its growth profile within the next year as the significant investment begins to flow through to production and cash flows. Kopy's capital investment programme remains on track, and is fully funded by existing debt facilities.

Valuation: Base case DCFE of SEK2.75/share

Our updated base case discounted free cash flow to equity (DCF) valuation of Kopy is little changed at US\$283m (previously US\$286m) or SEK2.75/share (previously SEK2.78/share). This is based on our standard gold price deck (long-term real gold price of US\$1,524/oz) and a 10% discount rate. Running a sensitivity analysis at a flat real long-term gold price of US\$1,700/oz (ie US\$1,700/oz rising by inflation), the discounted dividend valuation of Kopy would be SEK3.01 per share. The planned Nasdaq Nordic Main Market listing, for which preparatory work has begun, could be a catalyst for increased investor interest in Kopy Goldfields.

1 September 2021

Price **SEK1.88**
Market cap **SEK1,671m**

SEK8.65/US\$

Net debt (US\$m) at 30 June 2021 59.6

Shares in issue 889.1m

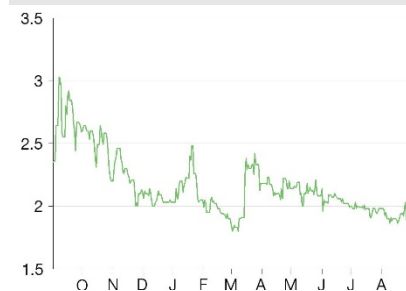
Free float 14%

Code KOPY

Primary exchange Nasdaq First North

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs (7.2) (11.6) (22.1)

Rel (local) (7.6) (18.7) (45.4)

52-week high/low SEK3.03 SEK1.80

Business description

Kopy Goldfields boasts production of >50koz of gold a year from two hard rock mines and a number of smaller placer deposits in Russia. Kopy also holds a 49% interest in the Krasny project and 100% of the Maly Patom exploration licences.

Next events

Q3 production report 22 October 2021

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Full-year guidance maintained despite challenging H1

H1 production down 14% y-o-y after COVID interruptions in Q1

Kopy Goldfields reported H1 production of 20.7koz (H120: 24.1koz). Q2 saw a much-improved quarter after the COVID-19 challenges of Q1, with a 69% q-o-q rise in production to 13.0koz (Q220: 14.0koz).

Following an outbreak of COVID-19 at the Yubileyniy mine site in December 2020, Kopy Goldfields strengthened and extended quarantine measures to prevent any recurrence, and operations at Yubileyniy were restored to capacity during the first quarter. Nevertheless shortages of some key personnel and other effects caused by the COVID-19 pandemic continued to have an impact on Yubileyniy production and procurement processes into Q221. Q221 production was also affected by seasonal factors. Transport of concentrate from Perevalnoe to the Yubileyniy processing plant primarily takes place during winter using the winter road, but unstable weather conditions in the spring meant that some Perevalnoe concentrate produced in H1 remains on site and has not been processed. Some transport of concentrate takes place during the summer by helicopter, but otherwise concentrate is accumulated at Perevalnoe until the winter.

A solid set of H1 results considering the challenges

Kopy Goldfields saw H121 EBITDA fall by 21% y-o-y in line with the reduction in gold sales (down 22% y-o-y). The company benefited from a 7% increase in the realised gold price to US\$1,775/oz. Despite lower production, the company has done well to keep unit cash costs contained at just US\$859/oz, slightly below H120's US\$861/oz despite the lower levels of production. H121 EBITDA was US\$14.0m (H120: US\$17.8m) and PBT was US\$7.8m (H120: US\$12.3m). Given the challenges of the first half year, we view these as a solid set of results, with an EBITDA margin of 38% (H120: 40%)

Exhibit 1: Kopy Goldfields H121 key metrics

	H121	H120	Change
Gold equivalent production (koz)	20.7	24.1	(14%)
Gold equivalent sales (koz)	20.8	26.5	(22%)
Price (US\$/oz)	1,775.0	1,658.0	7%
Revenue (US\$m)	37.2	44.2	(16%)
Cash cost (US\$/oz)	859	861	(0%)
EBITDA (US\$m)	14.0	17.8	(21%)
PBT (US\$m)	7.8	12.3	(37%)

Source: Kopy Goldfields H1 results

In H121 Kopy generated US\$1.3m in cash from operations after interest payments and spent US\$15.9m on capital projects. Cash flows in the first half were affected by the need to build inventories on site while the winter roads are in place, hence the US\$12.8m inventory build.

The company ended H121 with net debt of US\$59.6m, up from US\$41.9m at the end of 2020. That puts the company's last 12-month average net debt to EBITDA ratio at 1.4x. At 30 June 2021 the company had US\$0.9m in cash, US\$13.9m in available undrawn facilities and 5.25koz of gold in stock ready for sale.

Maintaining full-year production guidance of 56–59koz

Kopy Goldfields has maintained 2021 production guidance of 56–59koz, and while the lower H121 production means that H221 production will need to be significantly higher year-on-year to achieve the guidance, there are three reasons why we believe H221 will show such growth:

- the Yubileyniy plant expansion is nearing completion with commissioning set to commence in early Q4, thus beginning to contribute towards Yubileyniy production in Q4,
- heap leach operations at Yubileyniy and Perevalnoe are expected to contribute in H221,
- production at the placer mines is expected to be higher this year relative to last, as the company mines the new Khayarylakh deposit, and
- H1 21 saw a build up of gold in process inventory that will be released during H221.

Offsetting those benefits somewhat, COVID-19 related personnel availability remains a challenge that the company is working to mitigate. We expect some input cost pressures may result, but will be offset by the economies of scale of higher production.

We now forecast 2021 gold equivalent production of 56koz, at the lower end of the guidance range (previously we forecast 59koz) and gold equivalent sales of 57koz (previous forecast 61koz).

Capital investment programme progressing well

Kopy Goldfields currently has three major capital investment projects underway to increase production to 100koz per annum by FY25:

- a second flotation line at Yubileyniy (on track for commissioning in Q421),
- a heap leach operation at Perevalnoe (on track for commissioning by year end), and
- construction of a new mine at Malyutka (first production 2023).

During H1, activities progressed steadily at Yubileyniy and Perevalnoe, and these projects remain on track. Capital spend at Malyutka will be H2 weighted with the bulk of equipment transferred to site in late 2021 for construction in 2022.

Exploration is also progressing at the Krasny project (not included in Kopy Goldfields' 100koz per annum organic growth target) with a US\$6.8m budget agreed with JV partner GV Gold.

Updating FY21 forecasts for H1 (long-term unchanged)

We have updated our FY21 forecasts to reflect the impact of:

- the COVID-19 challenges in H1, which see our FY21 forecast production fall to 56koz (from 59koz previously),
- applying the year-to-date realised gold price to H121 and the spot gold price for the remainder of this year, and
- a downward adjustment to our FY21 cash cost of sales per ounce forecast to US\$902/oz (previously US\$950/oz) to consider actual H1 cash costs of US\$859/oz.

Exhibit 2: Forecast key metrics

	2021e			2022e		
	Old	New	Change	Old	New	Change
Gold sales (koz)	61	57	(6%)	83	83	0%
Gold price (US\$/oz)	1,840	1,785	(3%)	1,819	1,819	0%
Revenue (US\$m)	112.3	102.5	(9%)	150.3	150.3	0%
Cash cost of sales (US\$/oz)	950	902	(5%)	831	831	0%
EBITDA (US\$m)	44.3	42.2	(5%)	72.6	72.6	0%
PBT (US\$m)	30.5	26.2	(14%)	53.4	52.9	(1%)
EPS (c)	2.7	2.3	(14%)	4.7	4.6	(1%)
Capex (US\$m)	(55.8)	(55.6)	(0%)	(26.6)	(26.6)	0%
AISC (US\$/oz)	1,123	1,335	19%	939	1,074	14%
Closing cash (US\$m)	6.5	5.0	(23%)	26.3	24.5	(7%)
Closing net debt (US\$m)	61.8	63.7	3%	36.9	39.1	6%

Source: Edison Investment Research

Following these adjustments, we now see FY21 EBITDA of US\$42.2m (previously US\$44.3m) and PBT of US\$26.2m (previously US\$30.5m), resulting in EPS of 2.3c (previously 2.7c). We continue to expect FY21 capital investment of US\$56m. The increase in both FY21 and FY22 all in sustaining cost (AISC) forecasts reflects largely a greater proportion of planned capex being treated as sustaining capex than previously forecast (a reporting rather than cash impact).

We now expect Kopy Goldfields to end FY21 with cash of US\$5.0m, US\$7.2m in undrawn facilities and net debt of US\$63.7m (previously US\$61.8m), putting it on a December 2021 net debt/EBITDA ratio of 1.51x.

Our longer-term forecasts are little changed other than the knock-on impact of closing FY21 balances on depreciation and interest.

Sensitivities

Kopy Goldfields operates two hard rock mines and a number of smaller placer mines in Russia. In addition to the technical and operating risks of the mines, the company is thus also exposed to Russian political risk factors. Kopy Goldfields is approximately 86% owned by its major shareholders (who sold down approximately 1.5% of the company during this half year to improve the free float), which creates some further risk for minority investors. The latter risk may be partly mitigated by the proposed move to the Nasdaq Stockholm main board for which preparatory work has begun.

In addition to these more general risks, we think the two key risks for the company are any further impacts of COVID-19 on operations, and the balance sheet risk created during this period of higher capex.

An outbreak of COVID-19 at Yubileyniy during the last two weeks of December 2020 affected the pace of mining and processing in Q121 and into Q221. Although operations have now been restored to planned scale, the pandemic continues to pose challenges including to the availability and free movement of personnel and supplies. While Kopy is making every effort to mitigate these risks, this nevertheless remains a key sensitivity in terms of both 2021 production and also execution of the capex programme.

2021 represents the peak year in Kopy Goldfields' significant growth capital programme (totalling US\$130m between FY20 and FY25) with the company expecting to spend US\$56m on capex and exploration this year. That also means that net debt should peak this year: we forecast closing 2021 net debt of US\$63.7m, or 1.5x EBITDA. Our forecasts assume that the company draws down a further US\$20m in debt this year from the available PJSC VTB facility, leaving US\$7.2m in undrawn facilities and US\$5.0m in forecast cash at year end 2021, or US\$12.2m in total funding headroom. Even running a sensitivity analysis at a gold price of US\$1500/oz, available funding headroom would remain over US\$4m. To manage potential gold price risk as part of debt financing arrangements the company has hedged 40% of production from 2021 to 2025 by way of low-cost collars with floor prices of US\$1,400/oz and ceiling prices exceeding US\$2,500/oz.

Valuation

We value Kopy Goldfields using a DCFE, which calculates the net present value of the maximum *potential dividend* (or total free cash flow to equity per share) each year, discounted at a 10% discount rate and using the Edison gold price deck shown in Exhibit 3 below (unchanged from previous reports except for an update of 2021 to reflect current spot pricing).

Dividend flow for the purposes of valuation (ie free cash flow to equity per share) is calculated as:

- free cash flow from the Yubileyniy, Perevalnoe and placer mines and the Malyutka project less corporate overheads;
- less interest, debt and contract liability repayments (but adding any debt drawdowns);
- plus our US\$22m resource-based valuation of Krasny (US\$24.8 per ounce of gold resources) and a valuation for Maly Patom based on historical costs of US\$3m, which are included in cash flows for valuation purposes as though realised in FY21;
- divided by the number of shares in issue (to which we forecast no change over the period).

Our updated base case DCFE valuation of Kopy is little changed at US\$283m (previously US\$286m). Translating into Swedish krona at SEK8.65/US\$ (unchanged) gives us an updated DCFE valuation of SEK2.75 (from SEK2.78/share).

Exhibit 3: Edison gold price forecast (real and nominal US\$/oz)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gold price (real US\$/oz)	1,785	1,819	1,749	1,681	1,617	1,554	1,524	1,524	1,524
Gold price (nominal US\$/oz)	1,785	1,892	1,892	1,892	1,892	1,892	1,968	2,046	2,128

Source: Edison Investment Research

Exhibit 4: DCFE valuation of Kopy

	2021*	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Free cash flow to equity excl Krasny (US\$m)	4	21	33	26	46	61	66	69	75	50	44
Value of Krasny and Maly Patom (US\$m)	25										
Free cash flow to equity incl Krasny (US\$m)	29	21	33	26	46	61	66	69	75	50	44
Sum of DCFE (US\$m)	283										
Shares in issue (m)	889	889	889	889	889	889	889	889	889	889	889
FCFE per share (US\$)	0.04	0.02	0.04	0.03	0.05	0.07	0.07	0.08	0.08	0.06	0.05
FCFE per share (SEK)	0.30	0.19	0.30	0.23	0.43	0.57	0.62	0.68	0.73	0.49	0.43
Equity discount rate	10%										
DCF/share (US\$)	0.32										
DCF/share (SEK)	2.75										

Source: Edison Investment Research. Note: *2021 FCFE includes closing 2020 cash.

Sensitivity analysis: Gold price and discount rate

The table below shows the sensitivity of the discount dividend valuation to gold price and discount rate assumptions. At a flat real long-term gold price of US\$1,500/share and a 10% discount rate, the discounted dividend valuation of Kopy would be SEK2.19 per share, but this would rise to SEK3.00 per share at a US\$1,700/oz flat real gold price (ie a US\$1,700/oz nominal gold price rising by inflation).

Exhibit 5: Sensitivity of Kopy valuation (SEK per share) to gold price and discount rate

SEK/share		Gold price – real (US\$/oz)			
		1,300	1,500	1,700	1,900
Discount rate	6%	1.91	2.87	3.83	4.80
	8%	1.67	2.53	3.39	4.25
	10%	1.48	2.24	3.01	3.78
	12%	1.31	2.00	2.69	3.38

Source: Edison Investment Research

Exhibit 6: Financial summary

Year end 31 December	US\$m	2019	2020	2021e	2022e	2023e
		IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT						
Revenue		70.1	98.8	102.5	150.3	176.4
Cost of Sales		(44.5)	(55.0)	(64.8)	(82.8)	(98.7)
Gross Profit		25.6	43.8	37.7	67.5	77.7
EBITDA		27.3	45.6	42.2	72.6	83.0
Operating Profit (before amort. and except.)		17.6	34.5	29.2	58.5	69.2
Exceptionals		(2.3)	(2.9)	0.0	0.0	0.0
Share-based payments		0.0	0.0	0.0	0.0	0.0
Reported operating profit		15.3	31.6	29.2	58.5	69.2
Net Interest		(3.5)	(6.6)	(1.9)	(4.6)	(4.2)
Joint ventures & associates (post tax)		0.0	(0.3)	(0.8)	(1.0)	0.0
Profit Before Tax (norm)		14.0	27.6	26.2	52.9	65.0
Profit Before Tax (reported)		11.7	24.7	26.2	52.9	65.0
Reported tax		(2.6)	(5.6)	(5.8)	(11.6)	(14.3)
Profit After Tax (norm)		11.5	22.0	20.4	41.2	50.7
Profit After Tax (reported)		9.2	19.2	20.4	41.2	50.7
Minority interests		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		11.5	22.0	20.4	41.2	50.7
Net income (reported)		9.2	19.2	20.4	41.2	50.7
Average Number of Shares Outstanding (m)		N/A	815	889	889	889
EPS - normalised (c)		1.5	2.7	2.3	4.6	5.7
EPS - basic reported (c)		1.2	2.4	2.3	4.6	5.7
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		16.8	41.0	3.7	46.7	17.4
Gross Margin (%)		36.5	44.4	36.8	44.9	44.0
EBITDA Margin (%)		39.0	46.2	41.2	48.3	47.1
Normalised Operating Margin		25.1	34.9	28.5	38.9	39.2
BALANCE SHEET						
Fixed Assets		63.8	102.5	147.4	153.9	151.4
Intangible Assets		5.3	5.9	5.9	5.9	5.9
Tangible Assets		43.6	39.9	77.6	90.1	87.5
Investments & other		14.9	56.7	64.0	58.0	58.0
Current Assets		48.9	58.1	52.3	84.0	126.2
Stocks		43.4	39.8	39.3	51.5	60.4
Debtors		3.5	5.9	5.9	5.9	5.9
Cash & cash equivalents		0.4	10.4	5.0	24.5	57.7
Other		1.6	2.1	2.1	2.1	2.1
Current Liabilities		(22.5)	(19.5)	(15.0)	(17.1)	(19.7)
Creditors		(8.4)	(7.7)	(9.2)	(11.3)	(14.0)
Tax payable		(1.2)	(2.7)	(2.7)	(2.7)	(2.7)
Short term borrowings & contract liability		(12.9)	(9.0)	(3.0)	(3.0)	(3.0)
Other		(0.0)	(0.0)	(0.0)	(0.0)	(0.0)
Long Term Liabilities		(33.9)	(47.0)	(69.4)	(64.3)	(50.5)
Long term borrowings & contract liability		(31.1)	(43.3)	(65.7)	(60.6)	(46.9)
Other long term liabilities		(2.8)	(3.7)	(3.7)	(3.7)	(3.7)
Net Assets		56.2	94.2	115.3	156.6	207.2
Minority interests		0.0	(0.0)	(0.0)	(0.0)	(0.0)
Shareholders' equity		56.2	94.2	115.3	156.6	207.2
CASH FLOW						
EBITDA		27.3	45.6	42.2	72.6	83.0
Working capital		(17.8)	(19.9)	2.0	(5.1)	(6.3)
Exceptional & other		0.2	(0.8)	0.0	0.0	0.0
Tax		(2.7)	(5.1)	(5.8)	(11.6)	(14.3)
Net operating cash flow		7.0	19.8	38.4	55.9	62.5
Capex		(2.9)	(17.9)	(50.6)	(26.6)	(11.3)
Acquisitions/disposals		0.0	(5.6)	(5.0)	0.0	0.0
Net interest		0.0	(2.5)	(2.8)	(2.3)	(4.2)
Equity financing		0.0	0.0	0.7	0.0	0.0
Dividends		0.0	0.0	0.0	0.0	0.0
Other		0.0	0.0	0.0	0.0	0.0
Net Cash Flow		4.2	(6.1)	(19.4)	27.0	47.0
Opening net debt/(cash)		37.9	43.6	41.9	63.7	39.1
FX		0.0	(7.8)	0.0	0.0	0.0
Other adjustments to net debt		9.8	0.0	2.4	2.4	0.0
Closing net debt/(cash)		43.6	41.9	63.7	39.1	(7.9)

Source: Company accounts, Edison Investment Research

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