

# Kopy Goldfields

Q321 results

Q3 production up 16% y-o-y, full year on track

Metals & mining

3 December 2021

**Price** **SEK2.20**

**Market cap** **SEK1,956m**

SEK9.05/US

Net debt (US\$m) at 30 September 2021 57.3

Shares in issue 889.1m

Free float 15%

Code KOPY

Primary exchange Nasdaq First North

Secondary exchange N/A

Kopy Goldfields reported a strong set of Q3 figures with production up 16% year-on-year to 21.0koz and EBITDA up 14% year-on-year to US\$15.4m. The company looks on track to meet full year (unchanged) production guidance of 56–59koz (our forecast remains at the lower end of that range), and growth projects, which aim to lift production to more than 100koz by 2025, are progressing well.

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	9.1	16.2
12/20	98.8	27.6	45.6	2.7	5.4	9.0
12/21e	102.5	27.7	43.7	2.4	5.7	10.1
12/22e	150.3	53.3	72.7	4.7	3.4	5.2

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

## Production rose 16% y-o-y in Q3 to 21.0koz

Kopy Goldfields reported Q3 production of 21.0koz, with 9.8koz coming from the placer mines. After producing just 7.7koz in Q1 after COVID-related impacts at Yubileyniy, Kopy Goldfields' full year production guidance of 56–59koz looked under pressure. However, the 69% quarter-on-quarter production increase in Q2 was followed by a further 61% quarter-on-quarter increase in Q3. We forecast full year production of 56koz.

## Cash costs fell 4% q-o-q to US\$814/oz in Q3

Although Kopy Goldfields is not immune to the inflationary pressures across the mining sector, unit costs should benefit from economies of scale as production grows in future. We forecast cash costs of US\$876/oz in FY21 (US\$838/oz for the first nine months of FY21 (9M21)) falling to US\$830/oz in FY22.

## Valuation: Discounted DCFE of SEK2.89/share

As previously, we value Kopy Goldfields using a discounted free cash flow to equity (DCF) methodology and a 10% discount rate. Minor modifications to our cash flow forecasts (a US\$1.5m increase in 2021e EBITDA and the deferral of US\$1.6m in capex from 2021 to 2022) see our DCFE valuation of Kopy Goldfields move only marginally to US\$284m (from US\$283m previously), but applying the weaker exchange rate of SEK9.05/US\$ (from SEK8.65/US\$ previously) means that our per-share valuation increases to SEK2.89 from SEK2.75 previously.

## Share price performance



% 1m 3m 12m

Abs 8.1 12.6 4.9

Rel (local) 6.9 14.1 (19.8)

52-week high/low SEK3.29 SEK1.73

## 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

FY21 results March 2022

## Analysts

Alison Turner +44 (0)20 3077 5700

Lord Ashbourne (formerly Charles Gibson) +44 (0)20 3077 5724

[mining@edisongroup.com](mailto:mining@edisongroup.com)

[Edison profile page](#)

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## Q3 showed significant production rise (up 16% y-o-y)

In the third quarter, Kopy Goldfields produced 21.0koz of gold equivalent, an outstanding performance, with production up 61% quarter-on-quarter and 16% year-on-year. The strong Q3 bodes well for the company's ability to meet full year guidance of 56–59koz despite the more challenging first half, which was affected by COVID at Yubileyniy. We continue to expect production at the lower end of the guidance range, implying Q4 production of 14.4koz.

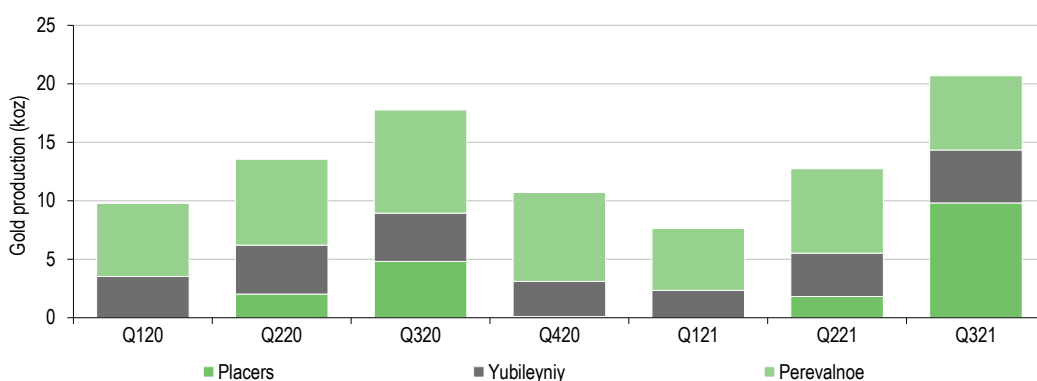
**Exhibit 1: Kopy Goldfields Q321 key metrics**

	Q321	Q320	y-o-y change	Q221	q-o-q change
Gold equivalent production (koz)	21.0	18.1	16%	13.0	61%
Gold equivalent sales (koz)	18.5	12.0	54%	9.8	89%
Price (US\$/oz)	1,779	1,912	(7%)	1,800	(1%)
Revenue (US\$m)	33.1	23.2	43%	17.9	85%
Cash costs (US\$/oz)	814	689	18%	849	(4%)
All in sustaining cost (US\$/oz)	1,066	1,041	2%	1,254	(15%)
EBITDA (US\$m)	15.4	13.4	14%	6.8	125%

Source: Kopy Goldfields Q3 results

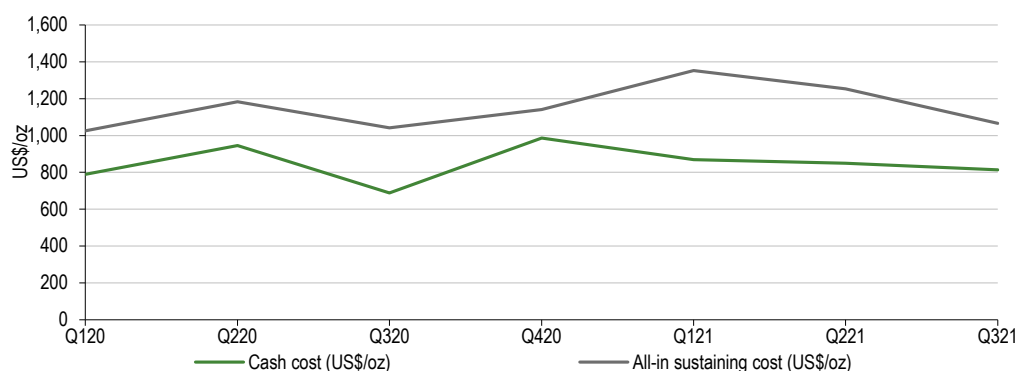
As shown in Exhibit 2 below, Q321 production benefited from a strong showing by placer mines, where production of 9.8koz was up 104% year-on-year after production began at the Khayarylakh deposit. Production from the placers is seasonal, requiring temperatures above freezing and, as such, production will normally continue into early Q4 but not beyond October. At Perevalnoe, production was down 28% y-o-y to 6.4koz as the open cast operation neared the end of its life to be replaced by underground mining from 2022. At Yubileyniy, Q3 production was somewhat negatively affected by activities related to the tie-in of the plant expansion, but this is now in commissioning and higher volumes should be expected in Q4 as the plant begins to ramp up towards expanded capacity of 250kt pa. Overall Q4 production should nevertheless be expected to be lower than Q3 and our forecast full year gold equivalent production of 56.0koz (the lower end of the company's guidance range) implies Q4 production of 14.4koz.

**Exhibit 2: Kopy Goldfields production (quarterly)**



Source: Kopy Goldfields, quarterly reports

Kopy Goldfields is not immune to the inflationary pressures across the mining sector, and COVID has added to both the challenge of recruiting labour and to the cost of various inputs and their logistics. Nevertheless, Q3 cash costs of US\$814/oz were down 4% q-o-q (albeit up 18% y-o-y). Going forward, inflationary pressures on unit costs should be offset by economies of scale from increased production, and we expect cash costs to fall to US\$830/oz in FY22.

**Exhibit 3: Kopy Goldfields cash costs and all-in sustaining costs (US\$/oz)**


Source: Kopy Goldfields, quarterly reports

## Updating FY21 forecasts for Q3 (long term unchanged)

We have updated our FY21 forecasts to reflect the Q3 results. The key points are as follows:

- 2021e gold equivalent sales remain unchanged at 57koz, but within our 56koz production forecast we now assume 13koz from placers (previously 8koz), 17koz from Yubileyniy (previously 18koz) and 25koz from Perevalnoe (previously 29koz), with 1koz of gold equivalent from silver making up the remainder.
- Our updated forecasts see a 3% reduction in 2021 cash costs to US\$876/oz (from \$902/oz previously). Year to date cash costs are running at US\$838/oz, but we would expect to see higher Q4 costs per ounce as production falls.
- We now forecast capex (including exploration spend at the Krasny JV) of US\$54m in 2021. Although the company has not changed its 2021 capex guidance of 'around US\$56m', year to date spend is just US\$23.2m and, although Q4 spend will likely be higher owing to payments for equipment to be shipped to Malyutka during the winter, it is nevertheless likely that some of the capex and exploration spend previously planned for 2021 will now fall in 2022. Nevertheless, Kopy reiterates that key growth projects are all progressing according to plan and continues to target FY25 production of more than 100koz.

**Exhibit 4: Forecast key metrics**

	2021e			2022e		
	Old	New	Change	Old	New	Change
Gold sales (koz)	57	57	0%	83	83	(0%)
Gold price (US\$/oz)	1,785	1,785	(0%)	1,819	1,819	0%
Revenue (US\$m)	102.5	102.5	0%	150.3	150.3	(0%)
Cash cost of sales (US\$/oz)	902	876	(3%)	831	830	(0%)
EBITDA (US\$m)	42.2	43.7	4%	72.6	72.7	0%
PBT (US\$m)	26.2	27.7	6%	52.9	53.3	1%
EPS (c)	2.3	2.4	6%	4.6	4.7	1%
Capex – including JV exploration (US\$m)	(55.6)	(54.0)	(3%)	(26.6)	(28.2)	6%
AISC (US\$/oz)	1,335	1,172	(12%)	1,074	1,024	(5%)
Closing cash (US\$m)	5.0	7.2	43%	24.5	25.4	3%
Closing net debt (US\$m)	63.7	61.2	(4%)	39.1	37.9	(3%)

Source: Edison Investment Research

Following these adjustments, we now forecast FY21 EBITDA of US\$43.7m (previously US\$42.2m) and PBT of US\$27.7m (previously US\$26.2m), resulting in EPS of 2.4c (previously 2.3c).

We now expect FY21 capital investment of US\$54.0m (previously US\$55.6m) but FY22 capex of US\$28.2m (previously US\$26.6m). The change in our FY21 and FY22 all in sustaining costs (AISC)

forecasts also reflects a change in our assumption of the proportion of planned capex that will be treated as sustaining capex (taking into account the 2021 ytd AISC of US\$1,193/oz).

Our forecasts assume that the company draws down a further US\$20m in debt this year from the available PJSC VTB facility, leaving approximately US\$5.7m in undrawn facilities and US\$7.2m in forecast cash at end FY21, or US\$12.9m in total funding headroom. We forecast end-FY21 net debt of US\$61.2m (previously US\$63.7m), putting Kopy Goldfields on a December 2021 net debt/EBITDA ratio of 1.4x. FY21 should represent the peak year in the company's significant growth capital programme (totalling US\$130m between FY20 and FY25) and we expect it to be free cash flow positive after capex from FY22 onwards, with net debt falling to US\$37.9m by the end of FY22.

## 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, with a 10% discount rate and using the Edison gold price deck shown in Exhibit 5 below (unchanged from previous reports).

Dividend flow for the purposes of our 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\$284m (previously US\$283m). Translating into Swedish krona at SEK9.05/US\$ (previously SEK8.65/US\$) gives us an updated DCFE valuation of SEK2.89 (from SEK2.75/share).

### Exhibit 5: 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. Note: \*2021 gold price takes into account ytd average of US\$1,777/oz

### Exhibit 6: DCFE valuation of Kopy

	2021*	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Free cash flow to equity excl Krasny (US\$m)	6	19	33	26	46	62	66	69	75	50	46
Value of Krasny and Maly Patom (US\$m)	25										
Free cash flow to equity incl Krasny (US\$m)	32	19	33	26	46	62	66	69	75	50	46
Sum of DCFE (US\$m)	284										
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
Equity discount rate	10%										
DCF/share (US\$)	0.32										
DCF/share (SEK)	2.89										

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

**Exhibit 7: Financial summary**

	\$m	2019	2020	2021e	2022e	2023e
31-December		IFRS	IFRS	IFRS	IFRS	IFRS
<b>INCOME STATEMENT</b>						
Revenue		70.1	98.8	102.5	150.3	176.4
Cost of Sales		(44.5)	(55.0)	(63.3)	(82.4)	(98.6)
Gross Profit		25.6	43.8	39.2	67.9	77.8
EBITDA		27.3	45.6	43.7	72.7	83.2
Operating Profit (before amort. and except.)		17.6	34.5	30.7	58.9	69.3
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	30.7	58.9	69.3
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	27.7	53.3	65.1
Profit Before Tax (reported)		11.7	24.7	27.7	53.3	65.1
Reported tax		(2.6)	(5.6)	(6.1)	(11.7)	(14.3)
Profit After Tax (norm)		11.5	22.0	21.6	41.5	50.8
Profit After Tax (reported)		9.2	19.2	21.6	41.5	50.8
Minority interests		0.0	0.0	0.0	0.0	0.0
Net income (normalised)		11.5	22.0	21.6	41.5	50.8
Net income (reported)		9.2	19.2	21.6	41.5	50.8
Average Number of Shares Outstanding (m)		N/A	815	889	889	889
EPS - normalised (c)		1.47	2.7	2.4	4.7	5.7
EPS - basic reported (c)		1.17	2.4	2.4	4.7	5.7
Dividend per share (c)		0.0	0.0	0.0	0.0	0.0
Revenue growth (%)		16.8	41.0	3.7	46.6	17.4
Gross Margin (%)		36.5	44.4	38.2	45.2	44.1
EBITDA Margin (%)		39.0	46.2	42.6	48.4	47.2
Normalised Operating Margin		25.1	34.9	29.9	39.2	39.3
<b>BALANCE SHEET</b>						
Fixed Assets		63.8	102.5	145.8	154.2	151.8
Intangible Assets		5.3	5.9	5.9	5.9	5.9
Tangible Assets		43.6	39.9	76.0	90.3	87.9
Investments & other		14.9	56.7	64.0	58.0	58.0
Current Assets		48.9	58.1	54.5	84.8	126.9
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	7.2	25.4	58.5
Other		1.6	2.1	2.1	2.1	2.1
Current Liabilities		(22.5)	(19.5)	(14.7)	(17.1)	(19.7)
Creditors		(8.4)	(7.7)	(9.0)	(11.3)	(13.9)
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)	(69.1)	(63.9)	(50.2)
Long term borrowings & contract liability		(31.1)	(43.3)	(65.4)	(60.3)	(46.5)
Other long-term liabilities		(2.8)	(3.7)	(3.7)	(3.7)	(3.7)
Net Assets		56.2	94.2	116.5	158.0	208.8
Minority interests		0.0	(0.0)	(0.0)	(0.0)	(0.0)
Shareholders' equity		56.2	94.2	116.5	158.0	208.8
<b>CASH FLOW</b>						
EBITDA		27.3	45.6	43.7	72.7	83.2
Working capital		(17.8)	(19.9)	1.7	(4.8)	(6.3)
Exceptional & other		0.2	(0.8)	0.0	0.0	0.0
Tax		(2.7)	(5.1)	(6.1)	(11.7)	(14.3)
Net operating cash flow		7.0	19.8	39.3	56.1	62.6
Capex		(2.9)	(17.9)	(49.0)	(28.2)	(11.5)
Acquisitions and investment in associates		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)	(16.9)	25.7	46.9
Opening net debt/(cash)		37.9	43.6	41.9	61.2	37.9
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	61.2	37.9	(9.0)

Source: Kopy Goldfields, Edison Investment Research Forecasts

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Frankfurt +49 (0)69 78 8076 960  
Schumannstrasse 34b  
60325 Frankfurt  
Germany

London +44 (0)20 3077 5700  
280 High Holborn  
London, WC1V 7EE  
United Kingdom

New York +1 646 653 7026  
1185 Avenue of the Americas  
3rd Floor, New York, NY 10036  
United States of America

Sydney +61 (0)2 8249 8342  
Level 4, Office 1205  
95 Pitt Street, Sydney  
NSW 2000, Australia