

Auriant Mining

Mangold Insight - Commissioned Research - Update 12-10-2020

MANGOLD

Momentum in Russian gold

Mangold updates Auriant Mining with a Buy recommendation and a 12-month target price of SEK16.00 per share. Auriant Mining is a Swedish junior gold mining company with several assets in Russia. Investment in gold mining stocks is traditionally associated with high risk and volatility. Given the company's strong improvements in earnings, it is our assessment that the stock can continue its upward trend during 2020-2021 triggered by progress in production, exploration and financing.

Strong earnings improvement

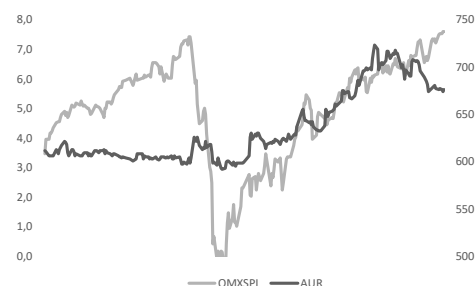
Auriant Mining reported strong half-year results, with a sales increase of 175 per cent to SEK273 million. Operating profit amounted to SEK129 million, compared to a loss SEK9 million in H1 2019. The company produced 16,750 ounces of gold, which is more than a doubling compared to the production of 8,189 ounces in H1 2019. The realised gold price per ounce rose during the first half of the year from USD1,315 to USD1,648.

Higher gold price - upside potential

Mangold's DCF valuation for the stock is in a base-case scenario SEK16 per share. In our report, we have accounted for the risk associated with the financing of new mining projects. If gold continues to rally to new records of USD2,500 per ounce, we can argue for a price of around SEK35 for the stock.

Information

Target price (SEK)	Buy 16.00
Risk	High
Price (SEK)	5.64
Market cap. (MSEK)	556
No. of shares (Million)	98.7
Free float	25%
Ticker	AUR
Next report	20-11-2020
Web address	www.auriant.se
Analyst	Jan Glevén



Share price performance

	1m	3m	12m
AUR	-7,8	0,4	54,9
OMXSPI	5,2	10,4	21,3

Key ratios

	2019	2020E	2021E	2022E	2023E
Sales (MSEK)	281.6	561.2	561.2	561.2	668.1
EBIT (MSEK)	20.9	286.0	280.6	263.2	237.2
Profit before tax (MSEK)	-8.6	232.6	216.6	182.2	126.2
EPS, adjusted (SEK)	-0.06	2.36	1.80	1.51	1.15
EV/Sales	5.34	2.68	2.68	2.68	2.25
EV/EBITDA	22.04	4.47	4.47	4.47	4.20
EV/EBIT	72.14	5.26	5.36	5.72	6.34
P/E	-98.34	2.54	3.33	3.96	5.21

Ownership structure

	Shares	Capital
Bertil Holdings, Ltd	51.6M	52.3%
GoMobile Nu	22.7M	23.0%
Avanza Pension	2.4M	2.3%
Danske Bank	1.7M	1.7%
Mangold Fondkommission	1.6M	1.7%
Carl Peter Schröder	1.5M	1.6%
Preben Blichert-Toft	1.0M	1.1%
Christoffer Bergfors	0.8M	0.8%
Total	98.7M	100%

Investment Case

Russian gold at a discount

Mangold update Auriant Mining with a Buy recommendation and a 12-month target price of SEK16 per share.

Buy, target price SEK16 per share

Auriant Mining shares have risen by just over 30 per cent since our initial analysis in June when the stock was trading at SEK4.25 per share. Our assessment is that the stock will maintain its strong upward trend in 2020-2021, triggered by continued strong developments in earnings and progress in production, exploration and financing.

An optimal stage of development

Auriant Mining is preparing to make substantial investments in the Kara-Beldyr and Solocon mines of up to USD180 million. Financing for the Kara-Beldyr mine is nearly secured. It is reasonable to expect that up to 70 per cent of the financing can be secured through loans, and that the remainder can be secured from shareholders or external investors. In this situation, it is common for major players in the sector, such as large gold mining companies or royalty companies, to provide financing for a larger ownership share in a private placement. If this were to occur, it would be a positive catalyst for the stock.

Auriant Mining in a "sweet-spot"

With these investments, Auriant Mining's production would increase from the current level of 20,000-30,000 oz. to 120,000-140,000 oz. over a three to five-year period. An increase in production on this scale is difficult for larger gold companies to achieve. And that is precisely the advantage Auriant Mining has right now - they are in a "sweet-spot" in terms of their stage of development. The company is not in the early stages of exploration, where investment risks are often too high. And the company has not matured to the same extent that the larger companies have, where it becomes difficult to achieve large-scale increases in production.

Production of 120,000-140,000 ounces within three to five years

Stock remains undervalued

In a base case, a DCF of Auriant Mining has been done with parameters for production per mine, extending until 2034. We have taken into account the risks presented by financing and dilution and applied a gold price of USD 1,900 per ounce in our calculations. Our valuation per share is therefore SEK16.00 (revised upwards from the previous valuation of SEK11 per share), which is more than double compared to the current market price.

Extreme upside potential with continued rise in gold price

We expect continued positive development in the price per share in 2020-2021 driven by the continued delivery of good results, progress in raising capital and an upward trend in the gold price. An extension of the current gold rally towards new record levels of USD 2,500 per ounce (30 per cent above today's gold price) would result in a stock price of around SEK35 per share. Overall, Mangold sees a favourable risk-reward for Auriant Mining shares. We again repeat our Buy recommendation and set a new, increased 12-month target price of SEK16 per share.

Favourable risk-reward

Auriant Mining - Update

Strong growth in H1 2020 results

Auriant Mining reported strong half-year results, with a sales increase of 175 percent to SEK273 million. Operating profit amounted to SEK129 million, which can be compared with H1 2019 when the company made a loss of SEK9 million.

Sales increase of 175 percent H1 2020

The company produced 16,750 ounces of gold, which is more than double compared to H1 2019 when the company produced 8,189 ounces. The realised gold price per ounce rose during the first half of the year from USD1,315 to USD1,648.

Gold price rise significant contributor to higher sales

AURIANT MINING - HALF-YEAR RESULTS

(SEK thousand)	1H19	2H19	1H20	2H20E	2019	2020E
Sales	100 397	181 203	275 083	286 148	281 600	561 231
EBITDA	11 760	56 482	162 394	174 345	68 242	336 739
EBITDA margin	12%	31%	59%	61%	24%	60%
Operating profit/loss	-9 104	29 954	128 956	157 002	20 850	285 958
Operating margin	-9%	17%	47%	55%	7%	51%

Source: Auriant Mining, Mangold Insight

Revised estimates

Given better-than-expected production, we have adjusted Auriant Mining's full-year production to 34,000 ounces. The realised gold price for H2 2020E and forward is set at USD1,900 per ounce. This means that the company's EBITDA from 2020E through 2023E increases from SEK220-230 million to SEK330-350 million, which corresponds to a profit increase of 50 percent.

EBITDA revised upwards by 50 percent

AURIANT MINING - ESTIMATES

(SEK thousand)	2021E	2022E	2023E	2024E	2025E
Gold production, thousand oz.	34	34	40	98	146
Realised gold USD/oz.	1 774	1 900	1 900	1 900	1 900
Sales	561 231	561 231	668 132	1 630 243	2 432 001
Opex	-224 492	-224 492	-310 013	-652 097	-972 800
EBITDA	336 739	336 739	358 119	978 146	1 459 201
EBITDA margin	60%	60%	54%	60%	60%
Net profit/loss	177 497	149 411	113 589	617 959	991 872
EPS (SEK)	1.80	1.51	1.15	6.26	10.05

Source: Mangold Insight

Auriant Mining - Valuation

Potential value in the stock

In our valuation of Auriant Mining, Mangold has chosen to apply a discounted cash flow (DCF) model over the lifespan of the mines until 2034. Our base-case scenario amounts to SEK1.6 billion or SEK16 per share. This amounts to an upside potential of just over 180 per cent compared to the current market price of SEK 5.64 per share.

DCF based on cash flow up to 2034

We have set the discount rate to 16 percent and considered tax incentives offered in Russia. This means that over the long term, we expect an effective tax of around 15 percent instead of the formal tax rate of 20 percent. Given that the company has only one mine in full operation today and two mines very near to the production stage, we have assigned the company a risk factor of 0.25. Therefore, it is primarily the risk relating to financing that is reflected here. The dilution that occurs through a stock issue has not been included but is however reflected in the risk factor.

Tax incentives in Russia

MANGOLD - DCF

(SEK thousand)	2020E	2021E	2022E	2023E...	...2034E
EBIT	285 958	280 629	263 178	237 179	434 904
Free cash flow	172 725	47 776	-296 059	-126 468	659 549

Assumptions	Risk factor	Discount rate	Growth	Tax
	0.25	16%	25%	15%

Target price

Enterprise value	2 262 585
Equity value (SEK thous.)	1 578 390
Target price per share (SEK)	16.0

Source: Mangold, Insight

Sensitivity to discount rate

In our sensitivity analysis below, we have performed our calculations based on different discount rates requirements for different risk factors. A resolution on financing for the Kara-Beldyr mine would reduce the risk in the stock and elevate the share. Here, for example, it can be presumed that the fair value of Auriant Mining stock would increase to almost SEK20 per share if we lower the discount rate requirement from 16 to 14 per cent whilst taking away the risk factor.

Upside with at lower discount rate

MANGOLD - Sensitivity analysis DCF (SEK per share)

Discount rate	12%	14%	16%	18%
Risk factor 0.00	31.8	26.4	21.3	18.1
Risk factor 0.25	23.8	19.8	16.0	13.6
Risk factor 0.50	15.9	13.2	10.6	9.0

Source: Mangold Insight

Appendix - Auriant Mining SWOT

Strengths

- Gold production in Tardan can partially finance the new mining projects
- Management and board have tremendous expertise and experience, and have good contacts in Russia

Weaknesses

- Major investment is needed for the projects in Kara-Beldyr and Solocon

Opportunities

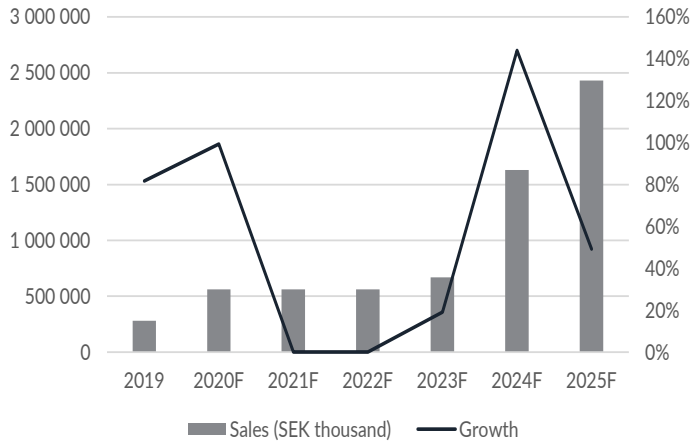
- Opportunity for substantial growth if a new financier is found from another gold mining company
- Potential for further exploration for new mineral reserves in the company's other assets

Threats

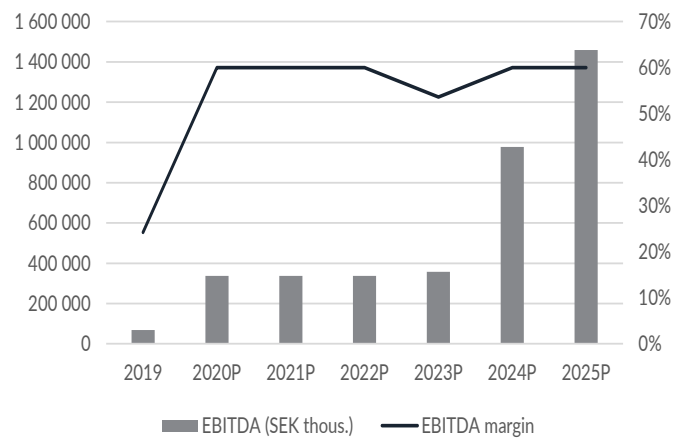
- Changes in permits or regulations could impact the company's operations

Appendix - Auriant Mining Diagram

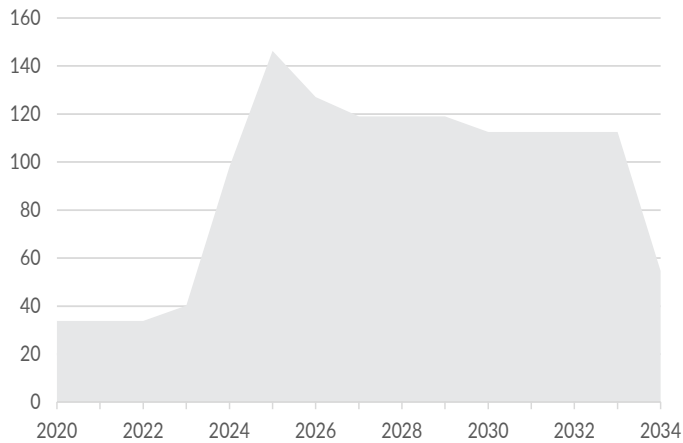
Auriant Mining - Sales & growth



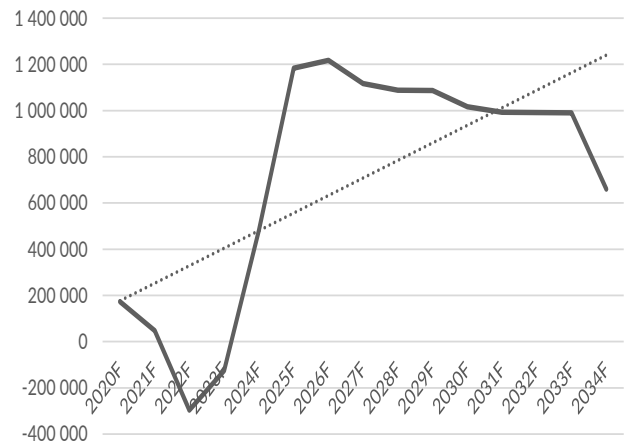
Auriant Mining - EBITDA development



Auriant Mining - Gold production (thousand oz)



Auriant Mining - Cashflow (SEK thousand)



Auriant Mining-Income Statement & Balance Sheet

Income statement (SEK thous.)	2019	2020E	2021E	2022E	2023E	2024E	2025E
Sales	281 600	561 231	561 231	561 231	668 132	1 630 243	2 432 001
Operating expenses	-213 358	-224 492	-224 492	-224 492	-310 013	-652 097	-972 800
EBITDA	68 242	336 739	336 739	336 739	358 119	978 146	1 459 201
EBITDA margin	24.2%	60.0%	60.0%	60.0%	53.6%	60.0%	60.0%
Depreciations	-47 392	-50 780	-56 110	-73 560	-120 940	-150 555	-192 751
Operating profit	20 850	285 958	280 629	263 178	237 179	827 590	1 266 450
Operating margin	7.4%	51.0%	50.0%	46.9%	35.5%	50.8%	52.1%
Net interest income	-29 485	-53 369	-64 169	-80 969	-110 969	-140 969	-164 369
Profit after net interest income/ expense	-8 635	232 589	216 459	182 209	126 210	686 621	1 102 081
Taxes	2 616	0	-38 963	-32 798	-12 621	-68 662	-110 208
Net profit	-6 019	232 589	177 497	149 411	113 589	617 959	991 872
Net margin	0.0%	41.4%	31.6%	26.6%	17.0%	37.9%	40.8%

Balance sheet (SEK thous.)	2019	2020E	2021E	2022E	2023E	2024E	2025E
Assets							
Cash & bank	1 343	300 699	564 305	687 277	949 840	1 680 660	2 700 538
Accounts receivables	38 299	69 193	69 193	69 193	82 372	200 989	299 836
Prepaid expenses	6 857	6 857	6 857	6 857	6 857	6 857	6 857
Inventory	47 123	92 257	92 257	92 257	109 830	267 985	399 781
Fixed assets	564 226	623 446	817 336	1 343 775	1 672 836	1 752 280	1 559 530
Total assets	657 848	1 092 452	1 549 948	2 199 360	2 821 735	3 908 771	4 966 542
Liabilities							
Accounts payable	24 114	46 129	46 129	46 129	54 915	133 993	199 891
Liabilities	889 489	1 069 489	1 349 489	1 849 489	2 349 489	2 739 489	2 739 489
Total liabilities	913 603	1 115 618	1 395 618	1 895 618	2 404 404	2 873 482	2 939 380
Shareholders' equity							
Share capital	564 818	564 818	564 818	564 818	564 818	564 818	564 818
Non-restricted equity	-820 573	-587 984	-410 488	-261 076	-147 487	470 472	1 462 344
Total equity	-255 755	-23 166	154 330	303 742	417 331	1 035 290	2 027 162
Total liabilities and equity	657 848	1 092 452	1 549 948	2 199 360	2 821 735	3 908 771	4 966 542

Source: Mangold Insight

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Recommendation structure:

Mangold Insight rates stock recommendations based on a 12-month perspective according to the following structure:

- Buy – an upside in the stock of at least 20 per cent
- Increase – an upside in the stock of 10-20 per cent
- Neutral – an upside/downside in the stock of 0 to 10 per cent
- Decrease – a downside in the stock of 10-20 per cent
- Sell – a downside in the stock of at least 20 per cent