

# Auriant Mining

Mangold Insight - Commissioned Analysis  
Updated 17 June 2021

## MANGOLD

### New strategy holds in the long run

Mining company Auriant Mining reduced its gold production during the first quarter due to planned maintenance work at the company's ore facility along with a decline in the average grade of processed ore. Revenues decreased by 34% compared to the first quarter of 2020. The company will, however, meet its production forecast of between 900 and 930 kg for the year as a whole. The company's gold stock increased by more than 30 kg compared with the end of 2020. This can be realised at a later stage when the need arises, or in the event of an increase in the gold price. The company achieved a higher realised average price of 1830 USD/oz for the quarter, which positively impacted sales figures for the period.

### Operational leverage effect underway

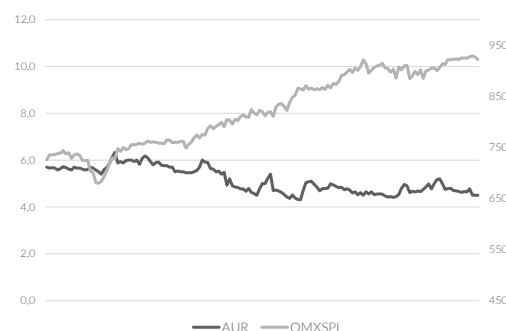
Auriant has laid the foundation to be able to ramp up its production and generate a profit in the future. Last year, the company repaid expensive loans to free up cash flow. The new management team operates in the same long-term manner. In addition to maintenance work, the company has put a lot of emphasis on stripping operations in Tardan, which is expected to ensure access to gold deposits in 2022. The company has also invested in the exploration of its assets and is expected to be able to present results from test drilling in the second quarter. The costs of the measures have burdened the quarter's results but are positive from an overall perspective. The company also announced that the development in the Kara-Beldyr project is well under way.

### Significant upside

Mangold's DCF valuation of Auriant Mining in a base-case scenario amounts to SEK 15.27 per share, and as such we repeat our target price of SEK 16.00, which gives an upside of almost 250% from the current share price. Mangold expects that Auriant will be able to ramp up its production over the coming years, which would enable a real leverage effect for the company's profit if the gold price increases.

#### Information

Rec. price/Price target (SEK)	Buy 16.00
Risk	High
Price (SEK)	4.45
Market value (MSEK)	442
No. of shares (million)	98.8
Free float	25%
Ticker	AUR
Next report	30 Aug 2021
Website	<a href="http://www.auriant.se">www.auriant.se</a>
Analyst	Caspar Hedman



#### Price trend

	1m	3m	12m
AUR	-4,1	-5,3	3,5
OMXSPI	2,8	7,2	47,1

#### Key ratios

	2020	2021P	2022P	2023P	2024P
Sales (MSEK)	492.1	434,6	441,9	515,2	1296,5
EBIT (MSEK)	187.2	181,1	164,0	143,4	607,0
Profit/loss before tax (MSEK)	123.1	80,9	519,5	903,7	755,7
EPS, adusted (SEK)	0,96	1,19	1,05	0,74	4,73
EV/Sales	2,19	2,48	2,43	2,09	0,83
EV/EBITDA	4,14	4,50	4,43	3,85	1,38
EV/EBIT	5,75	5,94	6,56	7,50	1,77
P/E	4,65	3,74	4,24	6,04	0,94

#### Ownership structure

	Shares (million)	Capital
Bertil Holdings Ltd	51,6	52,21%
GoMobile Nu	22,2	22,46%
Avanza Pension	2,9	2,94%
Mangold	1,6	1,66%
Nordnet	1,0	1,03%
Preben Blichert-Toft	0,9	1,00%
Carl Peter Schröder	0,9	0,94%
Christoffer Bergfors	0,9	0,87%
Total	98,8M	100%

# Investment Case

## Mangold reiterates Buy Recommendation

Mangold is following up the coverage of Auriant Mining by reiterating the Buy Recommendation and price target of 16.00 SEK per share, set after the second quarter.

*Strong buy price target SEK 16.00 per share*

Our assessment is that the Auriant Mining share will develop strongly in 2021, triggered by an improved capital structure and continued developments in profits combined with progress within gold production, exploration and financing.

## Optimum development phase

Auriant Mining is preparing major investments in the region of USD 180 million in the mines at Kara-Beldyr and Solocon. Of these, financing of Kara-Beldyr is the closest at hand. It is reasonable to expect that approximately 70% can be financed through loans, and that the remainder is covered by shareholders or external investors. For the latter, it is common that major players in the industry, such as large gold producers or royalty companies, provide this financing in exchange for a greater shareholding in the form of a private placement. Notification of this kind could be a positive catalyst for Auriant's stock price.

*Auriant Mining is in a "sweet-spot"*

With these investments, Auriant Mining's production would increase from current levels of 20–30 000 oz to 120–140 000 oz within a three to five-year period. An increase in production of this nature is difficult for larger gold companies to achieve. This is exactly Auriant Mining's major advantage - being in a "sweet spot" in terms of development phases. The company is not in an early phase of exploration where the risks are often too high. Yet at the same time, the company has not reached the point of maturity which most larger companies have, making it is difficult to achieve large increases in production.

*Production 120-140 000 oz in 3-5 years*

## Valuation remains attractive

Mangold has valued Auriant Mining's future cash flows based on a base-case production scenario for each mine, which extends to 2034. We have taken into account the risk in financing, and have adjusted our assumptions regarding the price of gold. From 2021 onwards, we expect the company to realise a gold price of USD 1830 per ounce, the same level as realised in the first quarter of 2021.

*Gold price of USD 1830 per oz in forecast*

This entails a valuation of SEK 15.25 per share, which warrants a reiteration of the price target we set after the third quarter, and represents an upside of almost 250%. The price trend is driven by the continued delivery of results in 2021, as well as progress in relation to financing. Earlier sensitivity analysis shows that a rise in the gold price would increase the upside in the share significantly.

*Higher gold price gives higher justified value*

Overall, Mangold continues to observe a good risk-reward ratio in the Auriant Mining share. We reiterate the Buy Recommendation and retain the price target of SEK 16.00 per share.

# Auriant Mining - Update

## New strategy holds in the long run

Russian gold miner, Auriant Mining, reported sales of USD 10.6 million in the first quarter of 2021. Revenue was lower than the same period last year due to a scheduled maintenance shutdown of the CIL facility in Tardan along with a planned decrease in the average grade of processed ore. The company still produced 210 kg of gold during the quarter, and announced that they are well on their way to reaching their production forecast for the year as a whole of between 900 - 930 kg. The company changed its reporting currency during the quarter to USD, and delivered an EBITDA of USD 5 million, approximately MSEK 42.

*facilities require maintenance*

## AURIANT MINING - QUARTERLY FIGURES

	Q1 2020	Q1 2021
Gold production oz	8 938	6 743
Gold price USD/oz	1 585	1 830
Gold sales (oz)	10 193	5 787
Gold sales (USD million)	16.2	10.6
Gold sales (MSEK)	156.2	88.0

Source: Auriant Mining, Mangold Insight

## Long-term production and sales

Comparability in the quarterly figures against those for 2020 is relatively low due to the new management team applying a new strategy for the company. The old Auriant management team chose to maximise sales for a long period in order to amortise expensive debts in the company, which have now been repaid. This resulted in the company processing high-quality gold ore at the same time as they sold off as much of their stock as possible. The company has now changed strategy in order to establish a long-term foundation in the company. The best example of this is that the gold stock increased from 56.3 kg at the turn of the year to 86.7 kg at the end of March. The stock should be considered a liquid asset that the company can realise if necessary, or in the event of a significantly higher gold price. The realised average price for gold sold in 2021 was 1830 USD/oz, which was an increase of 15% compared to the first quarter of 2020.

*Improved capital structure*

*Gold stock increased*

## Processing the terrain

In addition to the sales strategy, the management team has also applied a number of operational measures that are expected to have a positive effect on operations in the future. The company processed 413 000 cubic metres of waste rock, known in the trade as stripping volume, during the quarter, which was a 76% increase in volume compared to the first quarter of 2020. Waste rock is the rock that is not gold ore and can be succinctly described as unwanted material. By increasing this processing, the company can advance access to gold deposits in Tardan. The company is meant to gain access to the depots as early as 2022. Furthermore, the company has also expanded its exploration activity in the area, which increases the probability of finding new gold deposits.

*Greater stripping propels production*

# Auriant Mining - Prognosis

## Long-term strategy raises operating costs momentarily

These measures have increased costs and also been a burden on the quarterly results. The scheduled maintenance work at the CIL facility also resulted in increased costs. The cost per ounce produced was 48% higher than the same period last year, but the increase is not considered to be lasting. The company's operations were cash flow positive, even during the cost-heavy period, which Mangold sees as reaffirming. Cash flow has been used to invest in exploration and repay loans, which are also considered stable measures for the coming years.

*Operations generate positive cash flow*

## Delivery in line with forecast

Despite the company's changed reporting currency, the forecasts are made in Swedish kronor in order to attain a price target in the same currency. Unless stated otherwise, the exchange rate of USD 8.30/SEK has been used. Furthermore, the forecasts have been revised down to take into account the new management team's operational strategy, where the production forecast for the year as a whole is set at 926 kg.

*Realistic full-year forecast*

### AURIANT MINING - FORECASTS

	2021P	2022P	2023P	2024P
Gold production, kg	926	925	1 055	2 655
Gold realised USD/oz	1 830	1 830	1 830	1 830
Sales, MSEK	435	442	515	1 297
<b>EBITDA, MSEK</b>	<b>239</b>	<b>243</b>	<b>280</b>	<b>778</b>

Source: Mangold Insight

*Production goals*

Auriant invested in exploration during the period. In addition to Tardan, in which the company mines gold, there are currently also gold reserves in Kara-Beldyr and Staroverinskaya. The company announces that they are operating according to plan in order to obtain a necessary permits in Kara-Beldyr, at the same time as they need to decide how to approach the project in a cost-effective manner. Auriant has also announced that they will present results of test drilling in the Staroverinskaya region in the next quarterly report, where the results are expected to further affect the volume forecasts. It is from these reserves that the company will scale up its production in the coming years.

*Gold reserves explored*

# Auriant Mining - Valuation

## Higher gold price provides leverage

Mangold uses a DCF model where cash flows are discounted during the mines' lifetime until 2034. The company is positively affected by a higher gold price, and in the forecasts, the company's realised average price for the quarter of 1830 USD/oz has been used. The London Bullion Market Association's consensus estimate for 2021 is USD 1973.8/oz. Mangold takes a positive view on the company's ability to capitalise on a higher gold price at a later stage. Reduced liabilities combined with the expense recognition that took place during the quarter create good prerequisites for the company to be able to obtain the operational leverage on profits made possible when the underlying commodity price rises.

*Buy Recommendation reiterated for Auriant Mining*

*Low gold price*

## AURIANT MINING - DCF

(KSEK)	2021P	2022P	2023P	2024P	...2034P
EBIT	181 057	163 964	143 413	607 022	367 583
Free cash flow	-23 526	-380 587	-187 299	399 645	483 977

Assumptions	Risk discount	Discount rate	Tax
	0.20	15%	15%

## Price target

Enterprise value (KSEK)	2 144 982
Equity value (KSEK)	1 507 840
<b>Price target per share (SEK)</b>	<b>15,27</b>

Source: Mangold Insight

The assumptions related to risk and discount rate from the previous analysis remain. The enterprise value has been discounted by 20% in order to account for risks attributable to operations in the region, as well as exploration risks.

*Risk discount*

The DCF valuation gives a justified value per share of SEK 15.27. Mangold therefore retains the target price of SEK 16.00 set in September 2020. With a share price of SEK 16.00, the market value of the company would amount to just over SEK 1.5 billion, which would mean an upside of just under 250 % from the current price.

*Share undervalued*

# Appendix - Auriant Mining SWOT

## Strengths

- Production of gold in Tardan to partially finance the new mine projects
- Board of Directors and management team are knowledgeable and experienced, and have extensive networks in Russia

## Weaknesses

- Requires major investments for the projects in Kara-Beldyr and Solocon

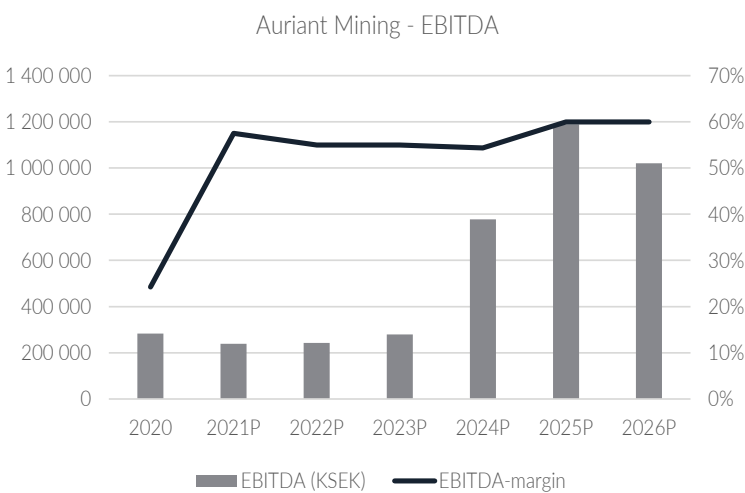
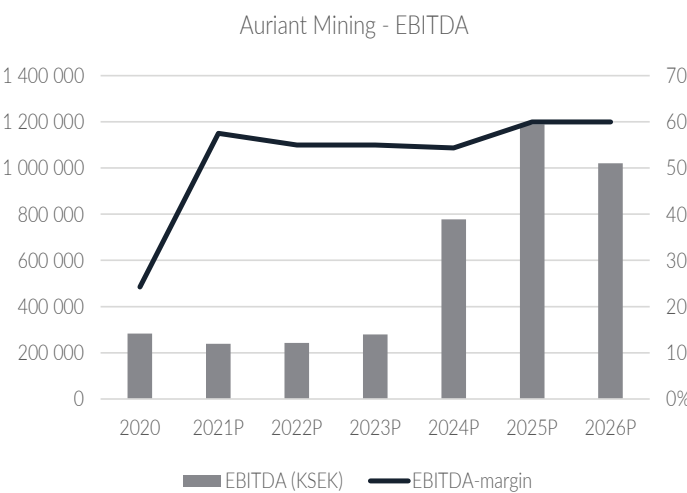
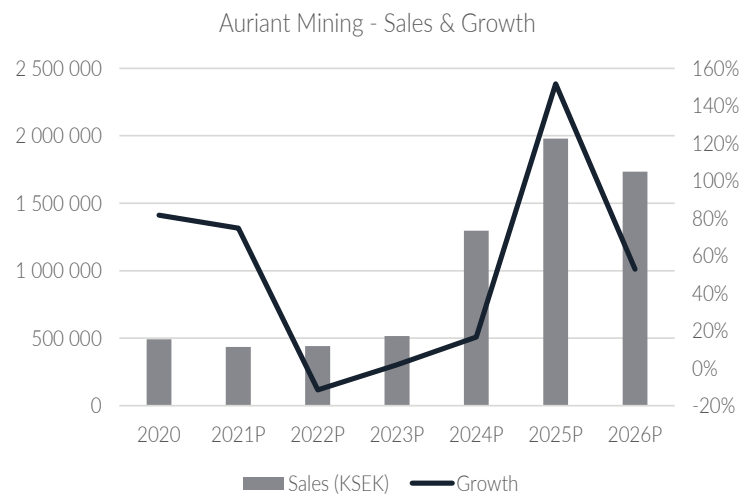
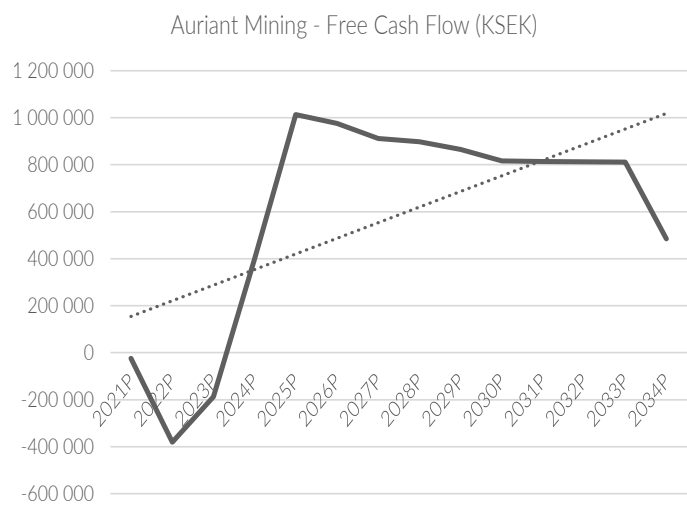
## Opportunities

- Chance to grow substantially with help of a new financier from another gold producer
- Potential for further exploration for new mineral reserves in the company's other assets

## Threats

- Changes in licensing or regulatory framework could affect the company's operations

# Appendix - Auriant Mining Graphs



Source: Mangold Insight

# Auriant Mining - Income statement and balance sheet

Income statement (KSEK)	2020	2021P	2022P	2023P	2024P	2025P	2026P
Sales	492 080	434 620	441 945	515 196	1 296 536	1 980 208	1 733 598
Operating expenses	-209 126	-195 579	-198 875	-235 379	-518 614	-792 083	-712 972
<b>EBITDA</b>	<b>282 954</b>	<b>239 041</b>	<b>243 070</b>	<b>279 817</b>	<b>777 921</b>	<b>1 188 125</b>	<b>1 020 625</b>
EBITDA margin	57,5%	55,0%	55,0%	54,3%	60,0%	60,0%	58,9%
Depreciation	-72 569	-58 380	-79 679	-136 914	-171 353	-177 805	-158 246
<b>Operating results</b>	<b>187 210</b>	<b>180 661</b>	<b>163 391</b>	<b>142 903</b>	<b>606 568</b>	<b>1 010 320</b>	<b>862 379</b>
Operating margin	38,0%	41,6%	37,0%	27,7%	46,8%	51,0%	49,7%
Net interest income	-64 070	-37 554	-37 554	-62 554	-87 554	-107 054	-107 054
Profit after net financial items	123 140	143 106	125 837	80 349	519 014	903 266	755 325
Taxes	-28 603	-25 759	-22 651	-8 035	-51 901	-90 327	-75 532
<b>Net profit</b>	<b>94 537</b>	<b>117 347</b>	<b>103 186</b>	<b>72 314</b>	<b>467 112</b>	<b>812 939</b>	<b>679 792</b>
Net margin	19,2%	27,0%	23,3%	14,0%	36,0%	41,1%	39,2%

Balance sheet (KSEK)	2020	2021P	2022P	2023P	2024P	2025P	2026P
<b>Assets</b>							
Cash and bank balances	3 452	252	82 110	332 257	1 034 347	1 940 762	2 809 168
Accounts receivable	11 912	53 583	54 486	63 517	159 847	244 135	213 731
Prepaid costs	11 157	11 157	11 157	11 157	11 157	11 157	11 157
Inventories	60 993	35 722	36 324	42 345	106 565	162 757	142 487
Fixed assets	427 755	719 142	1 240 037	1 553 632	1 612 733	1 435 332	1 277 446
<b>Total assets</b>	<b>515 270</b>	<b>819 857</b>	<b>1 424 115</b>	<b>2 002 908</b>	<b>2 924 648</b>	<b>3 794 143</b>	<b>4 453 990</b>
<b>Liabilities</b>							
Accounts payable	6 058	35 722	36 324	42 345	106 565	162 757	142 487
Liabilities	633 839	751 089	1 251 089	1 751 089	2 141 089	2 141 089	2 141 089
<b>Total liabilities</b>	<b>639 897</b>	<b>786 811</b>	<b>1 287 413</b>	<b>1 793 434</b>	<b>2 247 654</b>	<b>2 303 846</b>	<b>2 283 576</b>
<b>Equity</b>							
Restricted equity	565 384	605 384	605 384	605 384	605 384	605 384	605 384
Unrestricted equity	-690 011	-572 339	-468 683	-395 910	71 611	884 914	1 565 029
Total equity	-124 627	33 045	136 701	209 474	676 995	1 490 298	2 170 413
<b>Total liabilities and equity</b>	<b>515 270</b>	<b>819 857</b>	<b>1 424 115</b>	<b>2 002 908</b>	<b>2 924 648</b>	<b>3 794 143</b>	<b>4 453 990</b>

Source: Mangold Insight, the company reports in USD



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Mangold Insight grades its share recommendations over a 12-month period, according to the following structure:

Buy – An upside in the share of at least 20%

Increase – An upside in the share of 10–20%

Neutral – An upside and downside in the share of 0–10%

Decrease – A downside in the share of 10–20%

Sell – A downside in the share of at least 20%