Summary

Auriant Mining (AUR.ST)

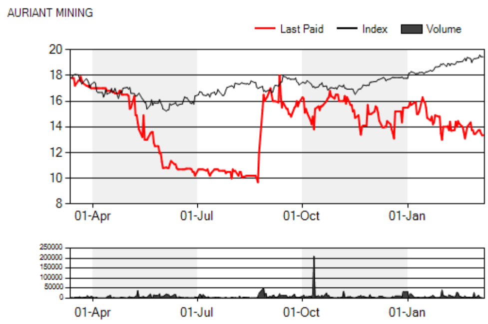
Great starting point for 2013

- Auriant Mining finished 2012 with a strong production and a positive EBITDA result. During 2012 the company has successfully transformed to a more stable miner with good growth prospects. Redeye expects increased production and stronger profitability in 2013 and onwards.

- There are still challenges remaining, mainly increasing production and profitability in Solcocon which underperformed in 2012.

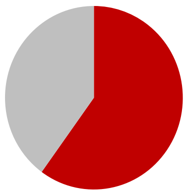
- However, a strong performance from the new management team and an improved financial position makes a great starting point for 2013. We have increased Rating of Potential reward and Secure investment.

List:	First North
Market Cap:	247 MSEK
Sector:	Exploration & Mining / Gold
CEO:	Denis Alexandrov
Chairman:	Preston Haskell



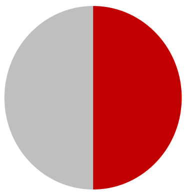
Redeye Rating (0-10 points)

Management



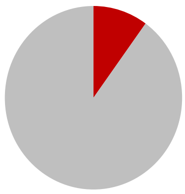
6.0 points

Growth potential



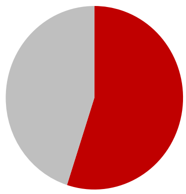
5.0 points

Profitability



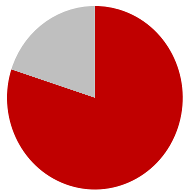
1.0 points

Secure investment



5.5 points

Potential reward



8.0 points

Key Ratios

	2010	2011	2012	2013e	2014e
Revenue, MSEK	248	197	281	381	566
Growth	*45%*	*-20%*	*43%*	*36%*	*48%*
EBITDA	24	-34	30	101	231
EBITDA margin	*10%*	*-17%*	*11%*	*27%*	*41%*
EBIT	1	-101	-40	19	150
EBIT margin	*0%*	*-51%*	*-14%*	*5%*	*27%*
Pre-tax earnings	13	-128	-72	-17	114
Net earnings	4	-120	-74	-14	91
Net margin	*2%*	*-61%*	*-26%*	*-4%*	*16%*
Dividend	0.0	0.0	0.0	0.0	0.0
EPS	0.22	-6.83	-4.20	-0.78	5.18
EPS adj.	0.22	-6.83	-4.20	-0.78	5.18
P/E adj.	63.5	n.m.	n.m.	n.m.	2.7
P/S	1.0	1.3	0.9	0.6	0.4
EV/S	1.1	2.4	1.8	1.5	1.0
EV/EBITDA adj.	11.6	n.m.	17.1	5.7	2.5

Share information	
Share price (SEK)	14.0
No. of shares (m)	17.6
Market cap (MSEK)	247
Net debt (MSEK)	328
Free float (%)	20.0
Daily turnover. ('000)	10

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Redeye Rating: Background and definition

A Redeye Rating aims to provide a clear view of a share's potential with regard to risk. The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of zero to 2 points (2 points: Good/Excellent; 1 point: Satisfactory; zero: Poor/Inadequate).

Redeye's internal research handbook sets out in a standardised way what is required for each rating factor. In certain cases, a factor could carry more or less weight than the other factors, depending on whether it is considered important or insignificant. The maximum score for a valuation key is 10 points (full circle=red circle). The lowest score is zero (empty circle=grey circle). In short, it is the overall rating that forms the basis for Redeye's evaluation of the share, and not the individual rating factors.

Management

The following factors are used to assess a company's management: 1) historical performance; 2) industry experience; 3) market communication; and 4) incentive. Historical performance carries twice as much weight as the other factors as it is considered a critical factor.

Growth potential

The following factors are used to evaluate growth potential: 1) market size; 2) market growth; 3) partnerships; 4) product differentiation; and 5) competitive situation. These criteria carry equal weight in the overall assessment of growth potential as a valuation key.

Profitability

The following factors are used to evaluate profitability: 1) stable profit growth; 2) gross margin; 3) EBIT margin; and 4) return on equity (ROE). Stable profit growth carries twice as much weight as it is considered a critical factor.

Secure investment

The following factors are used to assess how secure the investment is: 1) event-independence (independent of specific events); 2) financial situation; 3) ownership structure; 4) sensitivity to business cycles; and 5) share liquidity. The event-independence factor is multiplied by 2x as it is deemed very important. Sensitivity to business cycles and share liquidity are multiplied by 0.5x.

Potential reward

The factors that comprise the assessment of potential reward are: 1) fundamental valuation; 2) relative valuation; 3) market expectations; 4) news flow/triggers; 5) undiscovered share; and 6) insider trading. The fundamental valuation factor carries twice as much weight as it is considered extremely important. The market expectations, news flow, undiscovered share and insider trading factors are multiplied by 0.5x.

Great starting point for 2013

Auriant again presented a positive EBITDA from operations in Q4'12

Auriant Mining's transformation to a stable and growing gold mining company during 2012 has created a great starting point for increased production and profitability in 2013. The Q4 EBITDA-result came in somewhat lower than expected and the EBIT-result was significantly lower due to higher depreciation than estimated. Production was strong though and the company keeps delivering according to plan. The table below summarizes our expectation compared to actual outcome.

Outcome vs expectations

(SEKm)	Q4'11	Q4'12E	Q4'12A	Diff
Sales	33.9	98.1	116.1	18%
EBITDA	-16.8	16.0	8.0	-50%
EBIT	-42.4	3.0	-42.1	n.m.
Production, kg	63.0	286.0	307.0	7%
Of which Tardan	31.0	177.0	212.0	20%
Of which Solcocon	13.0	50.0	35.0	-30%
Of which Gold Borzia	19.0	59.0	60.0	2%

Source: Company data, Redeye Research

Production increased 50 percent in 2012 and Auriant expects to grow at least as much in 2013

Tardan delivered a production that was higher than expected. On the other hand Solcocon once again performed worse than expected but overall the production beat our expectations. For the full year, Auriant produced 642 kg of gold compared with 410 kg in 2011. The main growth contribution came from Tardan which is expected to further increase production in 2013. Auriant expects a production of around 500 – 600 kg of gold from Tardan in 2013. A positive surprise in the Q4 report was that Auriant also increased the long term production target for Solcocon (500 – 700 kg in 2015). In 2013 the production will be lower though, at around 300 – 350 kg. The total production guidance for 2013 is between 1 000 – 1 200 kg, representing a growth of between 50 – 90 percent.

Investments in 2013 is mainly concentrated to operational improvements

To be able to reach the production targets Auriant's main attention is continued operational improvement in both Tardan and Solcocon. In Tardan the company will be targeting a higher mining volume and increased ore throughput. In Solcocon investments will also be made in a new heap leach pad and a final upgrade of the crusher that was installed in 2012. The investment budget for 2013 is USDm 19 (around SEKm 120) and is as mainly targeted on operational improvements. The exploration budget is not specified but will probably be small in the near term but should expand as production in Tardan and Solcocon stabilize. However, there could be an interesting development in the Kara Beldyr-JV as recent drilling results were positive with some very high grade hits (best result; 125.4 g/t over 3.4 meters).

Production and financial forecasts

Redeye has made a minor downgrade of 2013 production but increased 2014 estimates

Redeye has made minor downgrades to our production forecast for 2013 and we now expect a production of 1 143 kg (previously 1 209 kg) which is mid-point of the company guidance. The decrease is mainly due to Solcocon where we feel it is prudent to use the low point guidance in 2013 as operational issues get resolved. However, we have increased production estimates for 2014 (1 646 kg, previously 1 579 kg) as the long term outlook for Solcocon has been improved. We have also increased long term estimates (2015+) for both Tardan and Solcocon as Auriant guides for a production of 2 000 kg per year from 2015. The table below summarizes actual performance in 2012 and Redeyes estimates for 2013 and 2014.

Financial development and estimates

(SEKm)	Q1'12	Q2'12	Q3'12	Q4'12	Q1'13E	Q2'13E	Q3'13E	Q4'13E	2013E	2014E
Gold production, kg	**37**	**42**	**259**	**305**	**76**	**232**	**477**	**358**	**1 143**	**1 646**
of which Tardan	21	23	156	212	42	110	241	204	597	998
of which Solcocon	15	19	47	35	34	102	116	54	306	408
of which Borzya	0	0	56	58	0	20	120	100	240	240
Gold price, USD / tr oz	1 690	1 600	1 750	1 750	1 600	1 650	1 700	1 750	1 675	1 750
USD/SEK	6,7	6,5	6,5	6,5	6,5	6,5	6,5	6,5	6,5	6,5
Revenues	**33**	**39**	**76**	**133**	**24**	**75**	**159**	**123**	**381**	**566**
Of which sales of gold	15	16	87	116	24	75	159	123	381	566
Cash Cost, USD / tr oz	**-4 170**	**-3 442**	**-1 256**	**-1 633**	**-1 112**	**-1 131**	**-1 094**	**-1 103**	**-1 106**	**-925**
Production costs	-33	-30	-68	-104	-18	-55	-109	-83	-264	-318
Overhead	-4	-4	-4	-4	-4	-4	-4	-4	-16	-17
Total costs	-37	-34	-72	-108	-22	-59	-113	-87	-280	-335
EBITDA	**-4**	**5**	**5**	**25**	**2**	**16**	**46**	**36**	**101**	**231**
Depreciation	-6	-4	-10	-50	-13	-13	-28	-29	-82	-81
EBIT	-10	1	-5	-26	-10	4	18	8	19	150
PTP	-11	-20	-3	-37	-19	-6	9	-1	-17	114
EPS, SEK	**-0,8**	**-0,8**	**-0,4**	**-2,3**	**-0,9**	**-0,3**	**0,4**	**-0,1**	**-0,8**	**5,2**

Source: Company data, Redeye Research

Our EBITDA estimate for 2014 is more or less unchanaged

Revenue estimates for 2013 has been lowered due to the new production forecast but also due to a lower gold price (average 1 675 USD per tr oz in 2013 vs previously 1 800). A surprise in Q4'12 was higher depreciation than expected which partly was due to an extraordinary charge (around SEKm 20). Still, it was a bit higher than estimated and thus we have increased depreciation costs for 2013 and beyond. This has led to a lower EBIT and Net profit estimate but does not affect our EBITDA and cash flow estimates.

As the new management keeps delivering in line with target, Redeye is more comfortable with the estimates above. The improved financial position has also decreased company risk and Redeye has increased the Rating for Secure investment.

Our sum of the parts valuation yields a fair value of SEK 31 per share

Sum of the parts valuation

We have increased the fair value for Auriant Mining after the Q4 report. Our sum of the parts valuation yields a fair value of SEKm 547 which corresponds to SEK 31 per share (previously SEK 25). The main contribution to the higher value is an improved outlook for Solcocon. Management expects Solcocon to deliver a long term production of 500 – 700 kg per year. This is significantly higher than Redeyes previous long term estimate (around 350 kg per year). We have increased our long term production estimate to 680 kg per year and hence also the DCF-value. The DCF-value for Tardan has been lowered somewhat due to higher than expected investments in 2013.

Sum of the parts valuation

Project	Enterprise value	% of value	Valuation approach
Tardan	552,9	56%	DCF
Solcocon	327,1	33%	DCF
Borzya	59,3	6%	DCF
Kala Beldyr, 30%	42,0	4%	Latest transaction
Value operating assets	981,3	100%	DCF
Overhead	-106,1		DCF
Net debt	328,2		Book value
Market value	547,0		
Value per share	**31,0**		

Source: Redeye Research

The major part of the value is attributable to Tardan

We have used a WACC of 14 percent in the DCF-valuation for all of the assets and a long term gold price of USD 1 300 per tr oz from 2016 and thereafter. We estimate that Tardan will be in production until 2024 based on the current C1 and C2 reserves and 10 percent of P2 resources. Solcocon could potentially be in operation for a very long time (2040+) if the resources at Bogomolovskoye and Kozlovskoye can be mined.

The major part of the value is attributable to Tardan (57 percent) and as such changes in our assumptions for the asset have a big impact. The table below shows a sensitivity analysis of the total DCF-value per share with different cash costs and long term production levels in Tardan.

Sensitivity DCF valuation, share price SEK

		Cash Cost Tardan, USD per tr oz			
		900	***800***	***700***	***600***
Production per year Tardan, 2016 and beyond	***900***	24.2	28.3	32.5	36.6
	1000	26.1	30.7	35.4	40.0
	1100	28.0	33.1	38.3	43.5
	1200	29.9	35.6	41.3	47.0

Source: Redeye Researcch

Relative valuation

Russian gold miners are targeting high growth but valuations are low

We have updated our relative valuation table which now includes forecast for 2015. All of the Russian based companies below targets a significant production growth in the coming years. The average increase from 2012 to 2015 is 50 percent. Auriant Mining's growth is even more impressive with an expected increase of almost 200 percent if the target of 2 000 kg can be reached. Despite this, valuations are low with a P/E multiple of around 7x 2013 earnings. This indicates a general disbelief in the companies' guidance and/or that the market expects that the gold price will fall significantly.

Peer valuation

Company	EV/Reserves USD / tr oz	EV/Prod. USD / tr oz			P/E		
		2013	2014	2015	2013	2014	2015
Russian gold miners							
CENTERRA GOLD	78	1,375	1,242	1,242	3.8	2.6	4.1
HIGH RIVER GOLD	282	2,116	1,828	1,675	7.4	6.8	5.1
POLYUS GOLD	120	5,982	4,434	4,362	11.2	9.9	7.8
PETROPAVLOVSK	162	2,128	1,902	1,617	4.2	3.6	3.4
HIGHLAND GOLD MINING	146	1,631	1,580	1,580	4.1	3.9	4.7
NORD GOLD	130	2,034	1,647	1,373	5.9	4.6	4.9
Swedish listed gold miners							
NORDIC MINES AB	148	2,466	1,943	1,943	neg	4.8	2.0
ENDOMINES AB	395	2,800	2,471	2,333	10.8	7.0	7.0
AVERAGE	**182**	**2,566**	**2,131**	**2,016**	**6.8**	**5.4**	**4.9**
MEDIAN	**147**	**2,122**	**1,865**	**1,646**	**5.9**	**4.7**	**4.8**
AURIANT MINING	**107**	**2,250**	**1,551**	**1,402**	**neg**	**2.7**	**2.4**

Source: Bloomberg, Redeye Research

Auriant Mining trades on a discount to peers

Auriant Mining has a low valuation on 2014 and 2015 estimates (~P/E 2.5) but the risks in the forecasts are higher than for the peers. However, if the company keeps delivering a positive performance risks will decrease and the share price should rise to a more normalized valuation. A more positive sentiment and higher valuation of the gold miners sector in general is also a potential positive trigger for a stronger performance of the Auriant share in 2013. Hence, with an intrinsic value of more than double of the current share price we see a great potential in Auriant Mining.

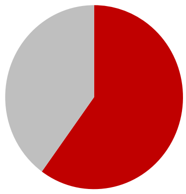
Summary Redeye Rating

The rating consists of five valuation keys, each constituting an overall assessment of several factors that are rated on a scale of 0 to 2 points. The maximum score for a valuation key is 10 points.

Rating changes in this report:

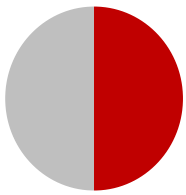
We have increased Rating of Secure investment and Potential reward.

Management 6.0p



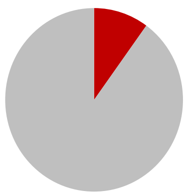
Comment: The company has historically not reached its targets. New management and board with mining experience has this far been an improvement and positive EBITDA was achieved in 2012.

Growth potential 5.0p



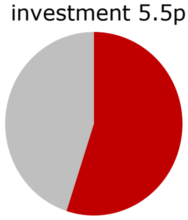
Comment: Investments has been made to increase capacity which indicates growing production going forward. Huge potential for increase of resources.

Profitability 1.0p



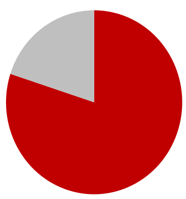
Comment: The company is still loss making. An increased production in the coming years should make Auriant highly profitable with current gold prices.

Secure investment 5.5p



Comment: Auriant Mining is dependent of a strong gold price. The high debt of more than 300 MSEK is an issue, but the risk of an equity issue is small after the restructuring of the debt maturity and interest levels in 2012.

Potential reward 8.0p



Comment: DCF-value far above current stock price. Low valuation compared to peers. Management (Denis Alexandrov, Ekaterina Babaeva and Max Yacoub) has bought shares in 2012 and 2013.

Income statement, MSEK	2010	2011	2012	2013e	2014e
Net sales	248	197	281	381	566
Total operating costs	-223	-231	-251	-280	-335
EBITDA	**24**	**-34**	**30**	**101**	**231**
Depreciation, amortisation	-23	-67	-70	-82	-81
EBIT	**1**	**-101**	**-40**	**19**	**150**
Share in profits	34	0	0	0	0
Interest income and similar items	0	0	0	0	0
Interest expenses and similar items	-21	-27	-32	-36	-36
Earnings before tax	**13**	**-128**	**-72**	**-17**	**114**
Tax	-9	8	-2	3	-23
Net earnings	**4**	**-120**	**-74**	**-14**	**91**

Income statement adj., MSEK	2010	2011	2012	2013e	2014e
Items affecting comparability	0	0	0	0	0
EBITDA adj.	24	-34	30	101	231
EBIT adj.	1	-101	-40	19	150
PTP adj.	13	-128	-72	-17	114
Net earnings, adj.	4	-120	-74	-14	91

Balance sheet, MSEK	2010	2011	2012	2013e	2014e
Assets					
Current assets					
Cash and bank balances	22	11	34	2	134
Customer receivables	75	43	43	43	43
Finished goods	158	154	154	154	154
Other receivables	0	0	0	0	0
Total current assets	**255**	**207**	**230**	**198**	**331**
Fixed assets					
Equipment	158	229	193	211	170
Financial assets	25	80	80	80	80
Goodwill	154	160	160	160	160
Capitalised expenditure for dev.	0	0	0	0	0
Other intangible assets	0	0	0	0	0
Total fixed assets	**354**	**469**	**433**	**451**	**410**
Total assets	**609**	**676**	**663**	**649**	**741**
Liabilities					
Current liabilities					
Accounts payable	0	0	0	0	0
Other liabilities	168	42	42	42	42
Total current liabilities	**168**	**42**	**42**	**42**	**42**
Long-term non-interest-bearing liab.	0	85	85	85	85
Long-term liabilities	56	240	301	301	301
Total liabilities	**224**	**368**	**429**	**429**	**429**
Provisions	0	0	0	0	0
Shareholders' equity	383	308	234	220	312
Minority	1	0	0	0	0
Minority & equity	**385**	**308**	**234**	**220**	**312**
Total liabilities & equity	**609**	**676**	**663**	**649**	**741**

Free cash flow, MSEK	2010	2011	2012	2013e	2014e
Net sales	248	197	281	381	566
Total operating costs	-223	-231	-251	-280	-335
Depreciation	-23	-67	-70	-82	-81
EBIT	1	-101	-40	19	150
Tax on EBIT	-9	8	-2	3	-23
NOPLAT	**-9**	**-93**	**-42**	**22**	**127**
Depreciation	23	67	70	82	81
Gross cash flow	**15**	**-27**	**28**	**104**	**208**
Change in working capital	-39	-89	0	0	0
Investments	-80	-143	-34	-100	-40
Free cash flow	**-104**	**-259**	**-6**	**4**	**168**

Capital structure	2010	2011	2012	2013e	2014e
Equity ratio	63%	46%	35%	34%	42%
Debt/equity ratio	15%	78%	129%	137%	97%
Net debt	34	229	268	299	167
Capital employed	441	549	536	522	613
Capital turnover rate	0.6	0.4	0.5	0.7	1.0

Growth	2010	2011	2012	2013e	2014e
Sales growth	45%	-20%	43%	36%	48%
Equity growth	97%	-20%	-24%	-6%	41%
EPS growth	n.m.%	n.m.%	n.m.%	n.m.%	n.m.%

DCF valuation	
Risk premium (%)	9.0
Beta	1.0
Risk-free rate (%)	5.0
Loan premium (%)	7.0
WACC (%)	14.0
Assumptions 2011-20 (%)	
Average sales growth	-4.9
EBIT margin	18.1

Cash flows, MSEK	
NPV FCF (2013-14)	n.m.
NPV FCF (2011-20)	n.m.
NPV FCF (2026-)	n.m.
Non-operating assets	114.0
Interest-bearing debt	301.5
Fair value estimate	547.0
Fair value estimate per share	**31.0**
Share price, SEK	14.0

Profitability	2010	2011	2012	2013e	2014e
Return on equity (ROE, %)	1%	-35%	-27%	-6%	34%
ROCE (%)	0%	-20%	-7%	4%	26%
ROIC (%)	-2%	-19%	-8%	4%	22%
EBITDA margin (adj.,%)	10%	-17%	11%	27%	41%
EBIT margin (adj.)	0%	-51%	-14%	5%	27%
Net margin (adj.)	2%	-61%	-26%	-4%	16%

Data per share, SEK	2010	2011	2012	2013e	2014e
EPS	0.22	-6.83	-4.20	-0.78	5.18
EPS adj.	0.22	-6.83	-4.20	-0.78	5.18
Dividend	0.0	0.0	0.0	0.0	0.0
Net debt	1.9	13.0	15.2	17.0	9.5
Total shares	17.7	17.6	17.6	17.6	17.6

Valuation	2010	2011	2012	2013e	2014e
Enterprise value	281	476	514	575	575
P/E	63.5	n.m.	n.m.	n.m.	2.7
P/E adj.	63.5	n.m.	n.m.	n.m.	2.7
P/S	1.0	1.3	0.9	0.6	0.4
EV/S	1.1	2.4	1.8	1.5	1.0
EV/EBITDA adj.	11.6	n.m.	17.1	5.7	2.5
EV/EBIT adj.	313.3	n.m.	n.m.	30.2	3.8
P/BV	0.6	0.8	1.1	1.1	0.8

Share performance	
1 month	-6.8%
3 months	-14.1%
12 months	-23.2%
Since start of year	-15.8%

Growth/Year	10/12e
Net sales	6.5%
Operating profit adj.	n.m.%
EPS adj.	n.m.%
Equity	-21.9%

Share structure, %	Capital	Votes
Bertil Holdings	52.9	63.1
Swiss Life	6.2	4.9
Citigroup	5.3	3.3
Swiss Life	2.8	2.3
Svea Lands	2.3	1.7
SIX SIS AG	2.3	1.7
Clearstream Bankning	2.1	1.7
Bernt Plotek	1.9	1.5
Royal Skandia	1.7	1.4
Robust AB	1.7	1.2

Share information	
Reuters code	AUR.ST
List	First North
Price SEK	14.0
Total shares, million	17.6
Market cap, MSEK	247
Round lot	1

Management & Board	
CEO	Denis Alexandrov
CFO	Mihail Fedulov
IR	Max Yacoub
Chairman	Preston Haskell

Financial information	
Q1 2013	2013-05-30
Q2 2013	2013-08-29
Q3 2013	2013-11-28

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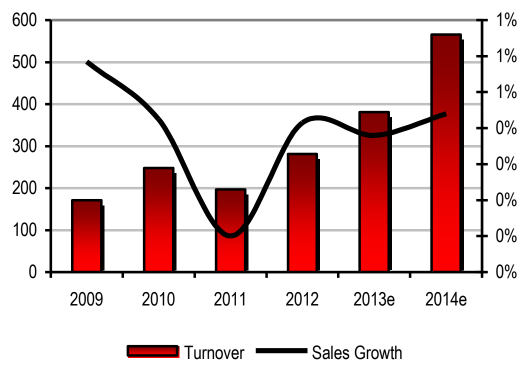
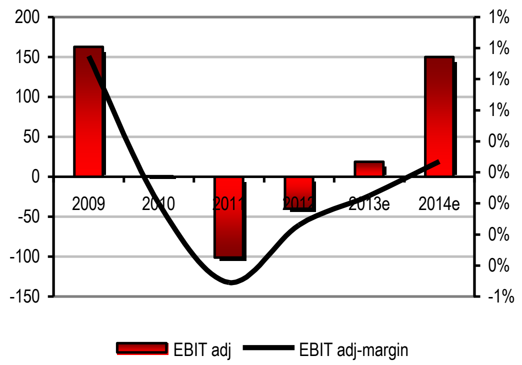
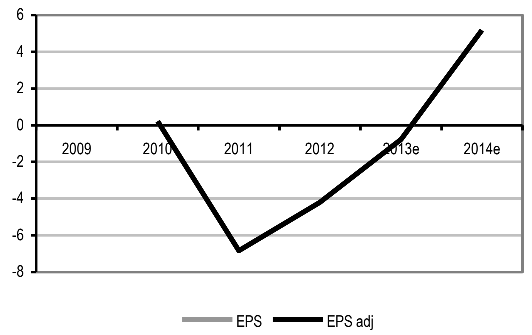
Turnover & growth (%)



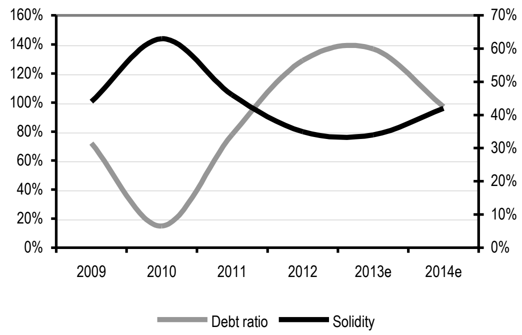
EBIT (adj-) & margin (%)



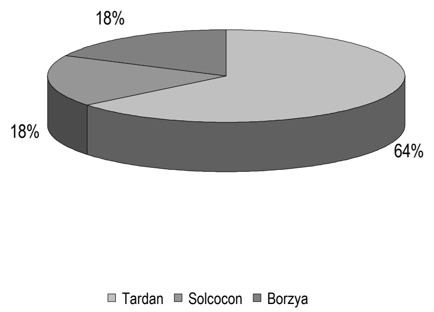
Earnings per share



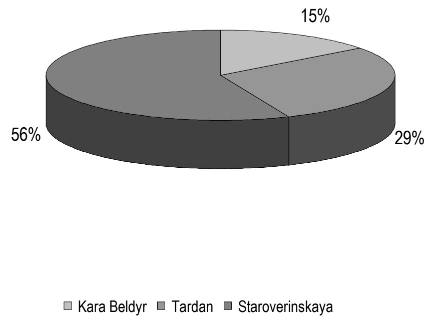
Equity & debt ratios (%)



Production 2012



Gold Resources



Conflict of interest

Hjalmar Ahlberg owns shares in the company Auriant Mining: No

Redeye performs/have performed services for the Company and receives/have received compensation from the Company in connection with this. Yes

Description

Auriant Mining AB is a Swedish junior mining company focused on gold production in Russia, primarily in Zabaikalskiy region and the Republics of Khakassia and Tyva. The company has currently 4 operations involving exploration and production of gold, one of which, Kara-Beldir LLC, is a joint venture with the major Canadian gold producer Centerra Gold Inc.

DISCLAIMER

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