

# Auriant Mining

Mangold Insight – Commissioned Research  
Update 15 March 2021

## MANGOLD

### Golden opportunity for Russian gold mine

Mining company Auriant Mining recorded a profit of SEK 96.5 million in 2020, equivalent to a 79% sales increase year-on-year. Gold production in the fourth quarter amounted to 6,729 ounces, making the 2020 total 31,014 ounces, an increase of 50% compared to 2019. Sales fell slightly during the fourth quarter following the company's decision to increase its gold stock. The company can realise this stock at a later stage. After a successful year with strong financial performance, we believe that the share has the potential to develop very well in 2021.

### New management and long-term decisions

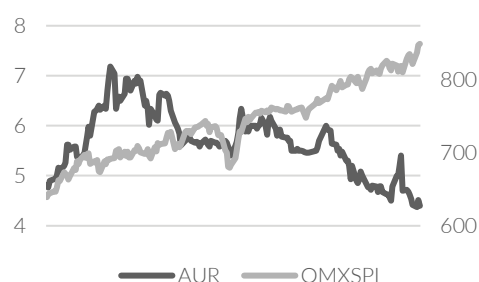
The fourth quarter was the first reporting period under new CEO Danilo Lange and CFO Vladimir Vorushkin. Profits for the period were impacted by impairments and loan repayments. However, these accounting measures were deemed necessary, and are in line with management's goal of strengthening the foundation for the company's long-term success and financial development.

### Significant upside

Mangold's valuation for Auriant Mining uses a DCF model. In a base-case scenario it motivates a stock price of SEK 15.80 per share. This is in line with our Q3 price target of SEK 16. We have accounted for risks related to the funding of new mine projects. The price target assumes that the gold price remains the same as was realised in 2020. Additionally, we have conducted a sensitivity analysis which demonstrates that an increase in the price of gold, to the London Bullion Market Association Consensus Estimate of USD 1,965 per ounce, would raise the justified value to above SEK 19 per share.

### Information

Rec. price/Price target (SEK)	Buy 16.00
Risk	High
Price (SEK)	4.30
Market value (MSEK)	427
No. of shares (million)	98.8
Free float	25%
Ticker	AUR
Next report	30 April 2021
Website	<a href="http://www.auriant.se">www.auriant.se</a>
Analyst	Caspar Hedman



### Price trend

	1 m	3 m	12 m
AUR	-10.2	-22.8	15.8
OMXSPI	5.0	11.2	42.9

### Key ratios

	2020	2021P	2022P	2023P	2024P
Sales (MSEK)	492.1	419.3	426.4	520.6	1,368.7
EBIT (MSEK)	187.2	203.8	189.9	160.6	676.9
Profit/loss before tax (MSEK)	125.1	166.3	138.3	84.1	575.4
EPS, adjusted (SEK)	0.98	1.38	1.15	0.77	5.24
EV/Sales	2.17	2.55	2.51	2.05	0.78
EV/EBITDA	4.16	4.25	4.18	3.89	1.30
EV/EBIT	5.71	5.24	5.63	6.65	1.58
P/E	4.48	3.17	3.81	5.72	0.84

### Ownership structure

	Shares (million)	Capital
Bertil Holdings Ltd	51.6	52.21%
GoMobile Nu	21.9	22.22%
Avanza Pension	2.5	2.50%
Mangold	1.6	1.66%
Carl Peter Schröder	1.6	1.58%
Danske Bank Int	1.3	1.33%
Preben Blichert-Toft	1.0	1.00%
Christoffer Bergfors	0.9	0.87%
Total	98.8M	100%

# Investment Case

## **Mangold repeats strong buy recommendation**

Mangold continues to cover Auriant mining and repeats the buy recommendation and price target of 16.00 SEK per share that was set in the previous update. Since Mangold published its updated analysis in early December, the share has fallen to around SEK 4.30 amid a lower gold price.

*Strong buy price target SEK 16,00 per share*

Our assessment is that the Auriant Mining share will develop strongly in 2021, triggered by a continued upward profit trend as well as positive developments in production, prospecting, and financing.

## **Solid foundation for further development**

Auriant Mining is preparing major investments in the region of USD 180 million in the mines at Kara-Beldyr and Solocon. It is reasonable to expect that approximately 70% can be financed through loans, and that the rest will be financed by shareholders or external investors. A common practice is that major players in the industry, such as large gold producers or royalty companies, provide the financing in exchange for a larger share of ownership in a targeted new share issue. News 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. Auriant Mining positioning is attractive: the company has left early stages of prospecting, which is a stage associated with high risks. Meanwhile, the company is mature enough to be able to scale up their production.

*Production 120–140,000 oz in 3–5 years*

## **Valuation remains attractive**

Mangold has valued Auriant Mining's future cash flows based on our base-case production scenario for each mine, which extends to 2034. We have considered risk in financing and have adjusted our assumptions with regards to the price of gold. From 2021 onwards, we expect the company to realise a gold price of USD 1,755 per ounce, the same level as in 2020.

*Gold price of USD 1,755 dollar per oz in forecast*

Consequently, this entails a valuation of SEK 16,00 per share, equal to the price target we set after Q3. Moreover, it represents an upside of 250%. Share performance in 2021 is driven by continued generation of earnings along with successful management of future financing. We have also conducted a sensitivity analysis which demonstrates that a realised gold price of USD 1,965 per ounce would increase the justified value to above SEK 19,00 per share.

*Higher gold price gives higher justified value*

In conclusion, Mangold believes that the Auriant Mining share displays an attractive risk-reward ratio. We repeat our strong buy recommendation and repeat the price target of SEK 16,00 per share for the next twelve months.

# Auriant Mining – Update

## Production increases

Auriant Mining ended the year with slightly lower production compared to the third quarter. This was primarily caused by a delay in alluvial gold production (mining of gold deposits found in rivers) in Solocon due to the Coronavirus pandemic. Production is expected to increase and return to relatively normalized levels in 2021. The company produced 6,729 ounces of gold during the fourth quarter and the average realised gold price for the quarter was USD 1,862/oz, which is slightly below the average Q3 price of USD 1,923/oz. Revenues for the year as a whole amounted to SEK 492 million, which is an increase of 79% compared to the previous year. Profitability in 2020 was positively affected by a higher gold price and lower compared to 2019. The company's EBITDA increased by 315% to SEK 283 million.

*Increased production and profit go hand in hand*

## AURIANT MINING – QUARTERLY AND YEARLY FIGURES

	Q4 2019	Q4 2020	Jan–Dec 2019	Jan–Dec 2020
Gold production oz	6,670	6,729	22,137	31,014
Gold price USD/oz	1,480	1,862	1,416	1,755
Sales (KSEK)	86,127	94,476	281,565	492,080
Operating profit (KSEK)	12,343	14,282	20,893	187,210
Operating margin	14%	15%	7%	38%

Source: Auriant Mining, Mangold Insight

## Adjusted forecasts

Mangold has adjusted the volume forecasts it made in the third quarter update, in line with Auriant's revised production goals. Mangold has adjusted the gold price in the forecast to USD 1,755/oz, which was the realised average gold price for the company in 2020. The forecasts have also taken the depreciation of the US dollar against the Swedish krona during 2020 into consideration.

*The company produces in line with targets*

## AURIANT MINING – FORECASTS

(KSEK)	2021P	2022P	2023P	2024P	2025P
Gold production, thousands of oz	30	30	36	93	142
Gold realised USD/oz	1,755	1,755	1,755	1,755	1,755
Sales	419,319	426,386	520,615	1,368,675	2,075,393
Opex	-167,728	-170,554	-245,938	-547,470	-830,157
<b>EBITDA</b>	<b>251,591</b>	<b>255,832</b>	<b>274,677</b>	<b>821,205</b>	<b>1,245,236</b>
EBITDA margin	60%	60%	53%	60%	60%
Net earnings	136,342	113,414	75,684	517,845	844,582
<b>EPS (SEK)</b>	<b>1.38</b>	<b>1.15</b>	<b>0.77</b>	<b>5.24</b>	<b>8.55</b>

Source: Mangold Insight

# Auriant Mining – Valuation

## Mangold repeats strong buy recommendation

Mangold values Auriant Mining using a cash-flow valuation whereby we discount the cash flows until 2034, which generates a value of SEK 15.80. Mangold thereby maintains a strong buy recommendation with a price target of SEK 16,00 per share, which was set in the third quarter update. This implies that we see an upside of 265% in the share.

*Strong buy repeated for Auriant Mining*

Mangold has chosen to keep the adjustments in the cost of capital (return requirement) and the risk factor which were applied to the company in our last update. This is based on the strong results Auriant has produced during the year, and the fact that Mangold believes the cautious accounting measures taken during the year have contributed to a lower company risk. Thus, we have opted to use a return requirement of 15% and to apply a risk factor of 20%.

### AURIANT MINING – DCF

(KSEK)	2021P	2022P	2023P	2024P	...2034P
EBIT	203,825	189,865	160,648	676,938	377,795
Free cash flow	-47,652	-370,516	-203,094	359,408	578,624

Assumptions	Risk discount	Discount rate	Tax
	0.20	15%	15%

### Price target

Enterprise value	2,193,425
Equity value (KSEK)	1,556,283
<b>Price target per share (SEK)</b>	<b>15.8</b>

Source: Mangold Insight

## Sensitivity analysis

Mangold has conducted a sensitivity analysis on the company based on the cost of capital and the gold price. In the event of a decreased gold price of the commodity at USD 1,500/oz, the analysis still indicates an attractive upside in the share. The London Bullion Market Association (LBMA) Consensus Estimate on the price of gold for 2021 is USD 1,965/oz. The sensitivity analysis gives us a valuation range between SEK 9,40 and SEK 24,00 per share. Mangold's base-case scenario places the price in the midst of this range.

*Sensitivity analysis shows high upside if conditions change*

### AURIANT MINING – SENSITIVITY ANALYSIS

Return requirement	13%	15%	17%
USD 1,500/oz	14.7	11.3	9.4
USD 1,755/oz	19.8	15.8	13.5
USD 1,965/oz	24.0	19.4	16.9

Source: Mangold Insight

# Appendix – Auriant Mining SWOT

## Strengths

- Production of gold in Tardan to partly finance the new mine projects
- Board and management are knowledgeable and experienced, and have an established network in Russia

## Weaknesses

- Major investments required for the projects in Kara-Beldyr and Solocon

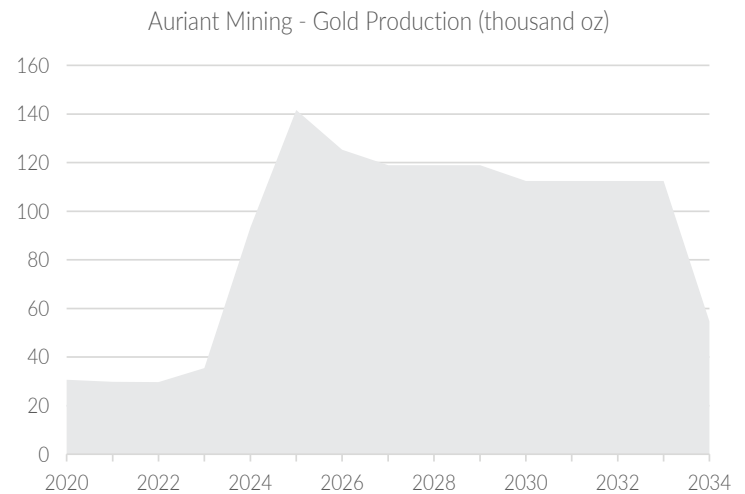
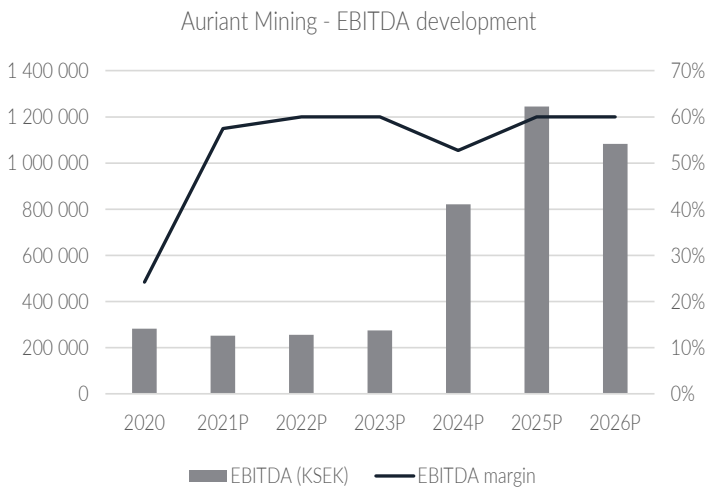
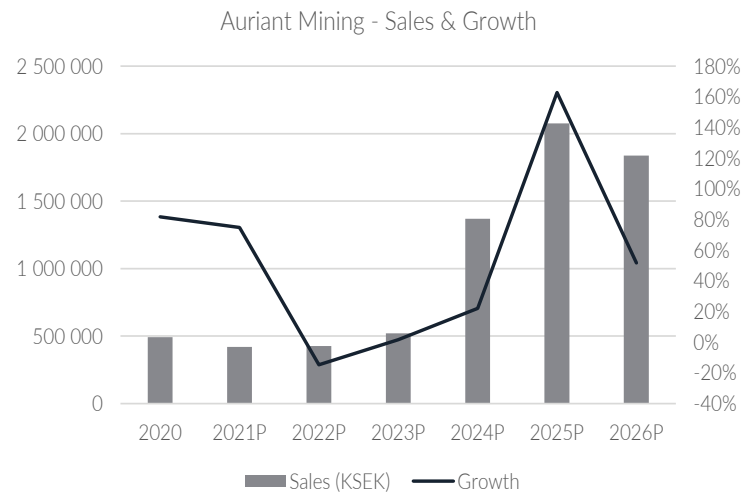
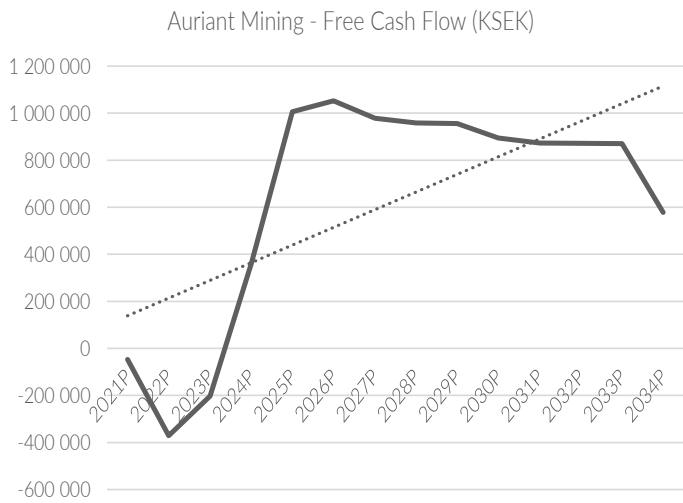
## Opportunities

- Opportunity of substantial growth with help of new financier from another gold producer
- Potential for further prospecting for new mineral reserves in the company's other assets

## Threats

- Licensing or regulatory changes could affect the company's operations

# Appendix – Auriant Mining Graphs



Source: Mangold Insight

# Auriant Mining – Income statement and balance sheet

<b>Income statement (KSEK)</b>	<b>2020</b>	<b>2021P</b>	<b>2022P</b>	<b>2023P</b>	<b>2024P</b>	<b>2025P</b>	<b>2026P</b>
Sales	492,080	419,319	426,386	520,615	1,368,675	2,075,393	1,837,464
Operating expenses	-209,126	-167,728	-170,554	-245,938	-547,470	-830,157	-753,832
<b>EBITDA</b>	<b>282,954</b>	<b>251,591</b>	<b>255,832</b>	<b>274,677</b>	<b>821,205</b>	<b>1,245,236</b>	<b>1,083,633</b>
EBITDA margin	57.5%	60.0%	60.0%	52.8%	60.0%	60.0%	59.0%
Depreciation/amortisation	-69,506	-47,766	-65,967	-114,030	-144,267	-185,757	-165,324
<b>Operating profit/loss</b>	<b>187,210</b>	<b>203,825</b>	<b>189,865</b>	<b>160,648</b>	<b>676,938</b>	<b>1,059,478</b>	<b>918,309</b>
Operating margin	38.0%	48.6%	44.5%	30.9%	49.5%	51.0%	50.0%
Net interest income/ expense	-62,123	-37,554	-51,554	-76,554	-101,554	-121,054	-121,054
Profit after net financial income/expense	125,087	166,271	138,310	84,093	575,384	938,424	797,255
Taxes	-28,603	-29,929	-24,896	-8,409	-57,538	-93,842	-79,725
<b>Net profit</b>	<b>96,484</b>	<b>136,342</b>	<b>113,414</b>	<b>75,684</b>	<b>517,845</b>	<b>844,582</b>	<b>717,529</b>
<b>Balance sheet (KSEK)</b>	<b>2020</b>	<b>2021P</b>	<b>2022P</b>	<b>2023P</b>	<b>2024P</b>	<b>2025P</b>	<b>2026P</b>
<b>Assets</b>							
Cash and bank balances	3,452	218,353	296,282	516,633	1,164,487	2,049,610	2,981,352
Accounts receivable	11,912	51,697	52,568	64,185	168,741	255,870	226,537
Prepaid costs	11,157	11,157	11,157	11,157	11,157	11,157	11,157
Inventories	60,993	68,929	70,091	85,581	224,988	341,160	302,049
Non-current assets	433,595	732,965	1,266,998	1,602,968	1,688,701	1,502,944	1,337,620
<b>Total assets</b>	<b>521,109</b>	<b>1,083,101</b>	<b>1,697,096</b>	<b>2,280,525</b>	<b>3,258,074</b>	<b>4,160,741</b>	<b>4,858,715</b>
<b>Liabilities</b>							
Accounts payable	6,058	34,465	35,045	42,790	112,494	170,580	151,024
Liabilities	633,846	1,031,089	1,531,089	2,031,089	2,421,089	2,421,089	2,421,089
<b>Total liabilities</b>	<b>639,904</b>	<b>1,065,554</b>	<b>1,566,134</b>	<b>2,073,879</b>	<b>2,533,583</b>	<b>2,591,669</b>	<b>2,572,113</b>
<b>Equity</b>							
Restricted equity	565,384	565,384	565,384	565,384	565,384	565,384	565,384
Non-restricted equity	-684,179	-547,837	-434,422	-358,739	159,107	1,003,688	1,721,217
Total equity	-118,795	17,547	130,962	206,645	724,491	1,569,072	2,286,601
<b>Total liabilities and equity</b>	<b>521,109</b>	<b>1,083,101</b>	<b>1,697,096</b>	<b>2,280,525</b>	<b>3,258,074</b>	<b>4,160,741</b>	<b>4,858,715</b>

Source: Mangold Insight

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Mangold owns shares in Auriant Mining.

Mangold most recently analysed Auriant Mining on 3 December 2020.

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Recommendation structure:

Mangold Insight grades its share recommendations for 12 months ahead, based on the following structure:

Strong buy – An upside in the share of at least 20%

Moderate buy – An upside in the share of 10–20%

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

Moderate sell – A downside in the share of 10–20%

Strong sell – A downside in the share of at least 20%