

Auriant Mining

Mangold Insight – Commissioned research - Update 13 October 2021

A bright future

Mining company Auriant Mining has increased its gold stock by 79 percent since the turn of the year, which can be realised if necessary or during higher gold prices. Gold production amounted to 455 kilos during the first half of the year, of which 8.6 kilos were found via the recently started alluvial production in the Staroverinskaya license area. Auriant is well on its way to achieving its target of 900 to 930 kilos in 2021. Loan terms have also improved significantly. Loan repayments amounted to USD 4.7 million, with interest expenses decreasing by 44 percent compared with the same period last year. Auriant has therefore increased its liquidity and is well positioned for growth.

Exploration and preparation

Exploration operations have increased in Tardan and Staroverinskaya, where the company has carried out test drilling. The processing of waste rock has increased by 80 percent compared with the same period last year. The costs per ounce of gold produced have increased as a result of costs related to waste rock processing, exploration, indexation of salaries, lower average content and maintenance of the CIL facility.

Great potential

Mangold presumes that Auriant will gear up its production in the coming years. It could enable a substantial leverage effect for the company's profit if the gold price increases. However, there are risks related to exploration and the gold price, which are taken into account in a sensitivity analysis. In a base scenario, Mangold values the share at SEK 16,00 per share, which indicates a large upside.



| Price trend % | 1m | 3m | 12m |
|---------------|------|-------|-------|
| AUR | -3,7 | -17,3 | -34,1 |
| OMXSPI | -6,1 | -4,1 | 23,8 |

Information

| | |
|-------------------------|-----------------|
| Rec. price/Price target | Buy 16,00 |
| Risk | High |
| Price (SEK) | 3.67 |
| Market value (MSEK) | 362.3 |
| No. of shares (million) | 98.8 |
| Free float | 25% |
| Ticker | AUR |
| Next report | 2021-11-29 |
| Website | auriant.com |
| Analyst | Pontus Ericsson |

| Ownership structure | Shares | Capital |
|----------------------|-------------|-------------|
| Bertil Holdings Ltd | 51,6 | 52,21% |
| GoMobile Nu | 22,4 | 22,66% |
| Avanza Pension | 3,1 | 3,10% |
| Diff för XDB | 1,1 | 1,08% |
| Nordnet | 1,0 | 1,00% |
| Christoffer Bergfors | 0,9 | 0,87% |
| Carl Peter Schröder | 0,8 | 0,79% |
| Preben Blichert-Toft | 0,6 | 0,61% |
| Totalt | 98,8 | 100% |

| Key ratios | 2020 | 2021P | 2022P | 2023P | 2024P |
|--------------------------|-------|-------|-------|-------|---------|
| Sales (MSEK) | 492.1 | 443.4 | 450.9 | 525.7 | 1 322.8 |
| EBIT (MSEK) | 187.2 | 185.9 | 168.9 | 149.1 | 622.8 |
| Profit before tax (MSEK) | 123.1 | 148.4 | 131.3 | 86.5 | 535.3 |
| EPS, adjusted (SEK) | 0.96 | 1.23 | 1.09 | 0.79 | 4.88 |
| EV/Sales | 2.12 | 2.35 | 2.31 | 1.98 | 0.79 |
| EV/EBITDA | 4.01 | 4.28 | 4.21 | 3.65 | 1.31 |
| EV/EBIT | 5.57 | 5.61 | 6.17 | 6.99 | 1.67 |
| P/E | 4.30 | 3.34 | 3.77 | 5.22 | 0.84 |

Investment case

Mangold reiterates Buy Recommendation

Mangold is following up the monitoring of Auriant mining by reiterating the Buy Recommendation and price target of 16.00 SEK per share. Our assessment is that the Auriant Mining share will develop strongly during the end of 2021 and the beginning of 2022, thanks to an improved capital structure and continued earnings development in combination with progress in production, exploration and financing.

Price target SEK 16.00 per share

Peak development phase

Auriant Mining is preparing major investments in the region of USD 180 million in the Kara-Beldyr and Solocon mines. Of these, financing of Kara-Beldyr is the closest at hand. It is reasonable to expect that approximately 70 percent 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 the share.

Auriant Mining is in a "sweet-spot"

With these investments, Auriant Mining's production would increase from current levels of 20–30 thousand ounces to 120–140 thousand ounces 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 difficult to achieve large increases in production.

Production 120-140 000 oz in 3-5 years

Valuation remains attractive

Mangold has valued Auriant Mining 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 1821 per ounce, the same level as realised in the first half of 2021.

Gold price of USD 1 821 per oz

This entails a fair value of SEK 15.88 per share, which represents an upside of almost 300 percent. The price trend is driven by the continued delivery of good results in 2021, as well as progress in relation to financing. A sensitivity analysis shows that a rise in the gold price would increase the upside in the share.

Higher gold price gives higher fair 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 from a twelve-month perspective.

Auriant Mining – Update

In line with production estimates

The Russian gold mining company Auriant Mining reported revenue of USD 22.9 million in the first half of 2021. It was a lower revenue compared to the same period last year, which can be attributed to lower sales and a scheduled shutdown of the CIL facility in Tardan. The company produced 455 kg of gold during the first half of the year, and announces that they are well on their way to reaching their production estimates for the full year of between 900 and 930 kg. The company changed its reporting currency to USD in 2021 and achieved an EBITDA of USD 10.6 million compared to USD 16.8 million in the same period last year. Alluvial production of gold, which is gold found in watercourses, began in Staroverinskaya in May and resulted in 8.6 kilos of gold.

Produces expected quantity

Begins alluvial production

AURIANT MINING - HALF-YEAR FIGURES

| | H1 2020 | H1 2021 |
|--------------------------|---------|---------|
| Gold production oz | 16 750 | 14 626 |
| Gold price USD/oz | 1 648 | 1 821 |
| Gold stock kg | 28,0 | 101,4 |
| Gold sales (oz) | 17 249 | 12 598 |
| Gold sales (USD million) | 28,4 | 22,9 |
| Gold sales (MSEK) | 275,1 | 192,8 |

Source: Mangold Insight

Long-term production and increasing stock

Comparability in the half-year figures compared to 2020 is fairly low as the new management team is applying a more long-term strategy for the company. The previous management team spent a lot of time maximising sales in order to be able to repay expensive loans. The company thereby sold a large portion of its stock of high-quality ore. The company's long-term strategy can be exemplified by the significantly increasing gold stock, from 56.3 kg (1 751 oz) at the turn of the year to 101.4 kg (3 154 oz) on 30 June 2021. The gold stock can be realised if necessary or if the gold price rises sharply, and as such should be considered a liquid asset. The gold price has remained at historically high levels, which has led to a realised average price for gold sold during the first half of the year of 1 821 USD/oz.

Gold stock increases steadily

Preparing for great things

Auriant Mining processed 774 000 cubic metres of waste rock during the first half of the year, which is 80 percent more than the corresponding period last year. In short, waste rock is the rock that is not gold ore and is unwanted. This increase in processing can give the company advanced access to gold deposits in Tardan, which the company can be expected to gain access to in 2022. Exploration activity has also increased in Tardan and Staroverinskaya, which increases the probability of finding new gold deposits in the future. The company has carried out 8 518 metres of drilling in Staraverinskaya and 3 966 metres in Tardan.

Exploration and processing of waste rock intensifies

Auriant Mining – Estimates

Short-term, increased operating expenses

Processing of waste rock, exploration, indexation of salaries, lower average content, and maintenance of the CIL facility resulted in increased costs during the first half of the year. The cost per ounce increased by 22 percent in Tardan compared to the same period last year, which is in line with the company's plans. Cash flow is positive and is used to repay loans and invest in exploration, which is seen as a good sign for the company's future. A collaboration agreement has also been signed with the Russian government to build a power line in Kara-Beldyr.

Long-term strategy increases short-term costs

Production in line with expectations

Mangold makes the estimates in Swedish kronor in order to arrive at a target exchange rate in the same currency, despite the change to USD as the reporting currency. The exchange rate used is USD 8.51/SEK, unless otherwise stipulated, as it is used in the interim report for the company's financial position as of 30 June 2021. The estimates for the full year 2021 remains unchanged from the previous analysis, as a production of 926 kg of gold is considered reasonable due to the fact that 49.1 percent of the volume has already been produced, despite maintenance of the CIL facility.

Lives up to production estimates

AURIANT MINING - ADJUSTED FORECAST

| | 2021E | 2022E | 2023E | 2024E |
|----------------------|-------|-------|-------|-------|
| Gold production, kg | 926 | 925 | 1 055 | 2 655 |
| Gold realised USD/oz | 1 821 | 1 821 | 1 821 | 1 821 |
| Sales, MSEK | 443 | 451 | 526 | 1323 |
| EBITDA, MSEK | 244 | 248 | 285 | 794 |

Source: Mangold Insight

Improved loan terms

The company has negotiated reduced loan costs. Interest costs decreased by 44 percent in the first half of the year compared with the same period last year. The reduction comes from loan repayments and a reduction in the interest rate from 9.5 to 4.9 percent. Repayments of USD 4.7 million were made during the first half of 2021, a decrease of 17 percent of total loans. The removal of the mandatory "cash sweep" clause from the loan terms has also been negotiated. The clause meant that positive cash flow was forced to be used to pay off loans, which, when removed, means a stronger liquid position that paves the way for increased production.

Stronger financial position

Auriant Mining – Valuation

Mangold reiterates Buy Recommendation

Mangold values Auriant Mining using a DCF model where cash flows are discounted during the mines' lifetime, which extends until 2034. After 2034, the mines are expected to be used up and the model therefore does not take any terminal value into account. During the first half of 2021, the realised average price of gold was USD 1 821/oz for the company, which has also been used in the estimates. The consensus estimate for 2021 from the London Bullion Market Association, the leading organisation in the pricing of precious metals, is USD 1 973.8/oz, which, if realised, could provide increased revenue for the company. As there are risks in both exploration and activities in the region, the Enterprise value has been discounted by 20 percent and assumptions made with regard to the discount rate remain unchanged from previous analyses.

Realised gold price for 2021 is USD 1 821 per ounce

AURIANT MINING - DCF

| (TSEK) | 2021E | 2022E | 2023E | 2024E | 2025E | ...2034E |
|----------------|---------|----------|----------|---------|-----------|----------|
| EBIT | 185 909 | 168 897 | 149 092 | 622 809 | 1 034 837 | 376 305 |
| Free cash flow | -37 676 | -400 299 | -211 422 | 339 659 | 915 609 | 438 416 |
| Terminal value | | | | | | |

| Assumptions | Risk discount | Discount rate | Tax |
|-------------|---------------|---------------|-----|
| | 0.20 | 15% | 15% |

Price target

| | |
|---------------------|-----------|
| Enterprise value | 2 205 421 |
| Equity value (TSEK) | 1 568 286 |

Fair value 15.88

Source: Mangold Insight

The fair value per share amounts to SEK 15.88. Mangold thereby retains the target price of SEK 16. In relation to the current price of SEK 3.67 per share, the upside is accordingly over 300 percent. Mangold recommends buying.

Price target is retained at 16 SEK per share

Sensitivity analysis

Mangold has made a sensitivity analysis of the company based on gold price and risk factor. If the gold price should fall sharply and a risk factor of 0.4 is applied, an upside of 69 percent remains. The valuation interval from the sensitivity analysis is between SEK 6.48 - 21.58 based on these factors.

Valuation range between SEK 6.48 to SEK 21.58 per share

AURIANT MINING - SENSITIVITY ANALYSIS

| Risk factor | 0.4 | 0.3 | 0.2 | 0.1 |
|--------------------|-------|-------|--------------|-------|
| 1520 USD/OZ | 6.48 | 8.63 | 10.79 | 12.95 |
| 1670 USD/OZ | 8.38 | 10.85 | 13.33 | 15.8 |
| 1821 USD/OZ | 10.29 | 13.08 | 15.88 | 18.67 |
| 1973.8 USD/OZ | 12.23 | 15.34 | 18.46 | 21.58 |

Source: Mangold Insight

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 solid contacts in Russia

Weaknesses

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

SWOT

Opportunities

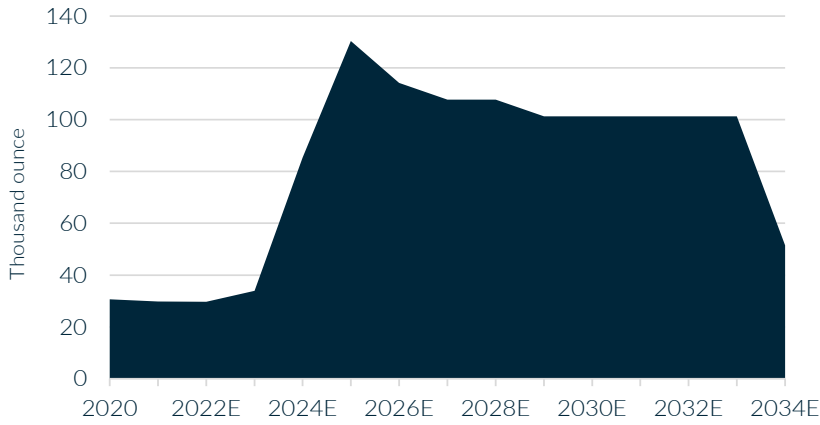
- Chance to grow substantially with help of a new financier from another gold producer
- Potential for further exploration for new mineral reserves in the company's other assets

Threats

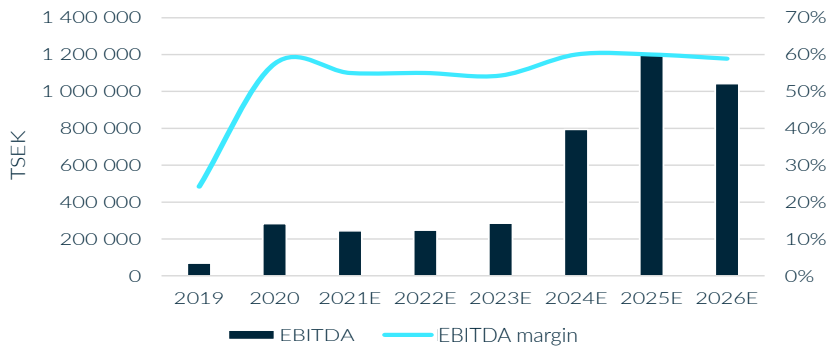
- Changes in licensing or regulatory framework could affect the company's operations

Auriant Mining- Appendix

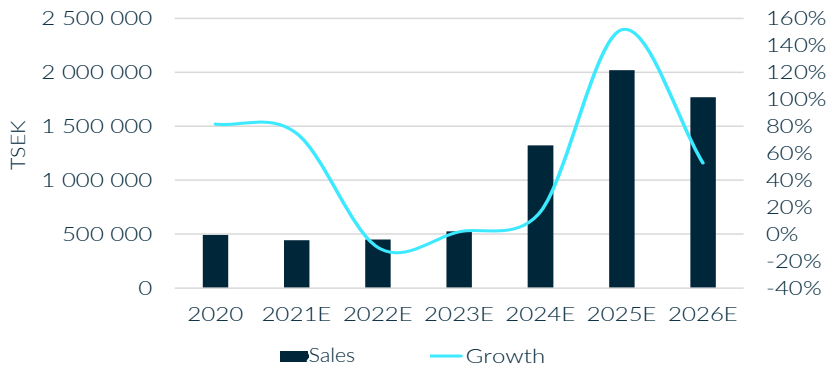
Auriant Mining - Gold production



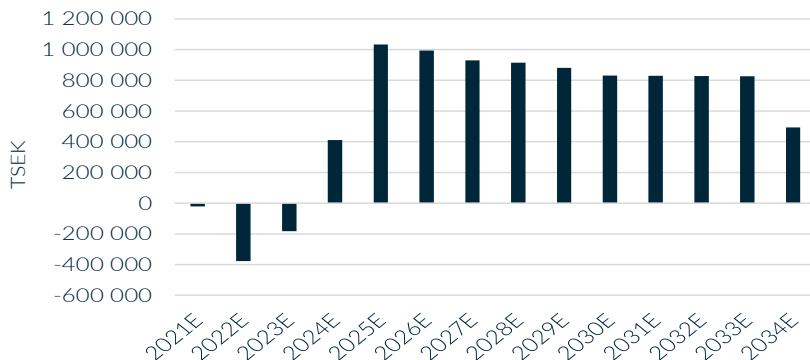
Auriant Mining - EBITDA estimates



Auriant Mining - Sales & growth



Auriant Mining - Free cash flow



Auriant Mining - Income statement and balance sheet

| Income statement (TSEK) | 2019 | 2020 | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P |
|----------------------------------|---------------|----------------|----------------|----------------|----------------|----------------|------------------|------------------|
| Sales | 281 565 | 492 080 | 443 441 | 450 914 | 525 652 | 1 322 848 | 2 020 396 | 1 768 780 |
| Operating expenses | -213 280 | -209 126 | -199 548 | -202 911 | -240 156 | -529 139 | -808 158 | -727 442 |
| EBITDA | 68 285 | 282 954 | 243 892 | 248 003 | 285 496 | 793 709 | 1 212 237 | 1 041 338 |
| EBITDA margin | 24,3% | 57.5% | 55.0% | 55.0% | 54.3% | 60.0% | 60.0% | 58.9% |
| Depreciation | -47 392 | -72 569 | -57 984 | -79 106 | -136 404 | -170 900 | -177 401 | -157 887 |
| EBIT | 20 893 | 187 210 | 185 909 | 168 897 | 149 092 | 622 809 | 1 034 837 | 883 452 |
| EBIT margin | 7,4% | 38.0% | 41.9% | 37.5% | 28.4% | 47.1% | 51.2% | 49.9% |
| Net interest income | -29 485 | -64 070 | -37 554 | -37 554 | -62 554 | -87 554 | -107 054 | -107 054 |
| Profit after net financial items | -8 592 | 123 140 | 148 354 | 131 343 | 86 538 | 535 255 | 927 782 | 776 397 |
| Taxes | 2 616 | -28 603 | -26 704 | -23 642 | -8 654 | -53 526 | -92 778 | -77 640 |
| Net profit | -5 976 | 94 537 | 121 650 | 107 701 | 77 884 | 481 730 | 835 004 | 698 758 |
| Net margin | -2,1% | 19.2% | 27.4% | 23.9% | 14.8% | 36.4% | 41.3% | 39.5% |

| Balance sheet (TSEK) | 2019 | 2020 | 2021P | 2022P | 2023P | 2024P | 2025P | 2026P |
|-------------------------------------|-----------------|-----------------|----------------|------------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | | | |
| Cash and bank balances | 1 343 | 3 452 | 3 142 | 89 028 | 344 101 | 1 058 446 | 1 984 852 | 2 872 517 |
| Accounts receivable | 38 299 | 11 912 | 54 671 | 55 592 | 64 806 | 163 091 | 249 090 | 218 069 |
| Prepaid costs | 6 857 | 11 157 | 11 157 | 11 157 | 11 157 | 11 157 | 11 157 | 11 157 |
| Inventories | 47 123 | 60 993 | 36 447 | 37 061 | 43 204 | 108 727 | 166 060 | 145 379 |
| Fixed assets | 564 225 | 427 755 | 719 142 | 1 240 037 | 1 553 632 | 1 612 733 | 1 435 332 | 1 277 446 |
| Total assets | 657 847 | 515 270 | 824 560 | 1 432 875 | 2 016 902 | 2 954 154 | 3 846 491 | 4 524 568 |
| Liabilities | | | | | | | | |
| Accounts payable | 24 114 | 6 058 | 36 447 | 37 061 | 43 204 | 108 727 | 166 060 | 145 379 |
| Liabilities | 889 488 | 633 839 | 751 089 | 1 251 089 | 1 751 089 | 2 141 089 | 2 141 089 | 2 141 089 |
| Total liabilities | 913 602 | 639 897 | 787 536 | 1 288 150 | 1 794 293 | 2 249 816 | 2 307 149 | 2 286 468 |
| Equity | | | | | | | | |
| Restricted equity | 564 818 | 565 384 | 605 384 | 605 384 | 605 384 | 605 384 | 605 384 | 605 384 |
| Unrestricted equity | -820 573 | -690 011 | -568 361 | -460 660 | -382 776 | 98 954 | 933 958 | 1 632 715 |
| Total equity | -255 755 | -124 627 | 37 023 | 144 724 | 222 608 | 704 338 | 1 539 342 | 2 238 099 |
| Total liabilities and equity | 657 847 | 515 270 | 824 560 | 1 432 875 | 2 016 902 | 2 954 154 | 3 846 491 | 4 524 568 |

Source: Mangold Insight

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Mangold owns shares in Auriant Mining.

Mangold has performed services for the company and has received remuneration from the company based on this.

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Recommendation structure:

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%