

31 May 2019

Stock Data

Ticker	AAZ LN
Share Price:	92p
Market Cap:	£105m \$134m

Price Chart



Research

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Research update

Anglo Asian Mining is an AIM listed precious and base metals producer running flagship Gedabek operations in western Azerbaijan including three producing mines and processing facilities. The Company targets 82-86koz GEOs in 2019 with low cost operations providing capital for organic growth opportunities within the highly prospective +1,000km² land package, attractive targets outside Azerbaijan as well as 25% of FCF dividend programme.

- The Company released FY18 earlier in May showing strong growth in earnings and cash flow generation with the Board proposing 4USc final dividend which together with 3USc paid in respect of H1/18 brought total dividend payments for the year to 7USc or 10.2% dividend yield on 2018 average price of 53p.
- Earning and FCF benefited from full year contribution from the Ugur deposit supplying easy to mill and leach ore as well as good cost control while the expansion of the crushing circuit in July 2018 is expected to improve operational flexibility and allow to increase copper concentrate production this year.
- As mentioned in May/18 update, reported EBITDA came in better than expected at \$49.8m (our estimate: \$39.8m); however the Company also reported higher than we expected capital expenditure numbers (\$18.2m v our estimate of \$11.5m) that included a proportion of waste stripping and development costs that were capitalised.
- For the sake of consistency and comparability with reported financial numbers, we have adjusted our earnings estimates capitalising \$10m of expenses in 2019 and 2020 that in turn increases our EBITDA but is offset by higher capital expenditure projections.
- We have prepared line-by-line comparison with our previous estimates below:

		Previous		Updated		Change, \$m	
		2019e	2020e	2019e	2020e	2019e	2020e
Production	GE koz	85.3	86.9	85.3	86.9	-	-
AISC	\$/oz	569	536	509	506	-60	-30
Revenues	\$m	95.4	99.1	95.4	99.1	-	-
EBITDA	\$m	37.4	41.2	47.4	51.2	10.0	10.0
Tax	\$m	-7.8	-9.2	-10.4	-11.3	-2.6	-2.1
Net CFO	\$m	31.5	32.8	38.9	40.6	7.4	7.8
Capex	\$m	-11.0	-8.0	-16.0	-16.0	-5.0	-8.0
FCF(post%)	\$m	20.5	24.8	22.9	24.6	2.4	-0.2
Dividends	\$m	8.0	6.9	8.0	6.9	-	-
Net Debt/(Cash)	\$m	-18.6	-36.5	-21.0	-38.8	-2.4	-2.3

- Our changes to 2019 and 2020 estimates involve reclassifying expenses from operating costs to capital costs. Our EBITDA estimates rise by \$10m to \$47m and \$51m, respectively on reduced operating costs. However, this would have seen a corresponding increase in expected capital expenditure of \$10m for both 2019 and 2020. We understand from the company that it now expects lower underlying capital expenditure costs than we had originally forecast and we therefore only increased our capital estimates for 2019 and 2020 respectively by \$5m and \$8m - this to give \$16m for both years. Savings in sustaining capital costs of \$4m (extra \$1m comes from exploration) in 2019 and \$2m in 2020 bring a drop in AISC of \$60/oz and \$30/oz, respectively (exploration costs are not included).
- The cash tax paid increases as a result of higher earnings in both years.
- Dividends remain unchanged as the 25% of FCF policy for both years gives lower than a minimum assumed payment commitment of 6USc per annum (i.e. c.\$27m in minimum annual FCF).

- Net cash position improves by \$2.4m to \$21.0m as a reduction in capital spend outweighs higher tax bill in 2019, with little change in 2020 as the two nearly match.
- We have included production estimates for the Gedabek operations below:

		FY18	FY19	FY20
Heap Leaching				
Throughput	kt	1,206	1,086	1,100
Grade	g/t	0.71	0.70	0.70
Recoveries	%	69%	57%	61%
Gold production	koz	19.0	14.1	15.1
Agitation Leaching				
Throughput	kt	751	651	640
Grade	g/t	2.23	2.31	2.24
Recoveries	%	87%	91%	90%
Gold production	koz	46.6	43.8	41.5
Flotation				
Throughput	kt	324	598	620
Grade Au	g/t	1.26	0.88	0.75
Grade Cu	%	0.56%	0.57%	0.60%
Recoveries Au	%	56%	55%	60%
Recoveries Cu	%	74%	77%	80%
Gold production	koz	7.2	9.2	9.0
Copper production	kt	1.2	2.7	3.0
SART				
Copper production	kt	0.4	0.5	0.6
Total				
Gold (dore + concentrate)	koz	72.8	67.1	65.7
Production Cu (flotation + SART)	kt	1.6	3.2	3.6
Silver (dore + concentrate)	koz	210.2	221.4	230.5
GE	koz	83.8	85.3	86.9

Conclusion: Our above adjustments are aimed at better aligning reported and estimated numbers. Capitalisation of a proportion of expenses raised our EBITDA estimates incurring higher tax bill, which was compensated by a downward revision in capital costs (mostly sustaining). On a net basis, the overall effect on cash flows is slightly positive with net cash position improving by \$2.3m over two years.

EBITDA margins reduce slightly as flotation circuit begins to contribute more to total production while higher margin AGL contribution pulls back. Counterintuitively, AISC are coming down during the period which in turn reflects higher share of by-product revenues in total sales (32% of pre-PSA revenues in 2019 v 17% in 2018).

Gedabek operations remain highly FCF generative benefiting from low cost jurisdiction and good infrastructure that allows the team to invest in exploration, pay good dividend (5.1% DY on 92p) as well as maintain robust balance sheet should an attractive target come along.

With the latest revision having little change to forecast FCFs and a share of cash costs reclassified from operating to capital expenses, we adjusted our target EV/EBITDA multiple down to 4.0x which after applying to an average of 2019 estimated EBITDA of \$47m and 2020 EBITDA of \$51m and adjusting for \$6.1m in net cash as of Dec/18 we arrive at our target valuation of \$203m or 127p per share.

(Dec year end)		2014	2015	2016	2017	2018	2019E	2020E
Gold price	US\$/oz	1,267	1,161	1,253	1,261	1,271	1,302	1,350
Copper price	\$/t	6,828	5,505	4,872	6,196	6,554	6,368	7,000
Gold production	koz	60.3	72.0	65.4	59.6	72.8	67.1	65.7
Copper production	kt	0.8	1.0	1.9	2.0	1.6	3.2	3.6
GE production	koz	65.0	77.0	75.2	71.6	83.8	85.3	86.9
AISC (incl PSA, reported)	US\$/oz	1,050	858	616	604	541	509	506
Revenue	US\$m	68.0	78.1	79.2	71.8	90.4	95.4	99.1
EBITDA	US\$m	10.1	18.7	33.7	32.0	49.8	47.4	51.2
FCF	US\$m	-6.9	3.4	14.6	16.3	27.4	22.9	24.6
EV/EBITDA	x	7.7	3.1	1.7	1.7	1.5	2.7	2.5
PER	x	-	-	5.5	13.9	4.9	10.2	8.6
DY	%	-	-	-	-	10.2%	5.1%	5.1%
Net Debt	US\$m	52.4	49.0	34.6	18.1	-6.1	-21.0	-38.8

Prices as of 30/05/19 (92p)

Source: SP Angel, Company

SP Angel Earnings Summary – Anglo Asian Mining

\$m unless stated (YE Dec)

Market data			Operating metrics						
			FY16	FY17	FY18	FY19e	FY20e		
Ticker		AAZ LN	USDAZN	1.61	1.72	1.70	1.70	1.70	
Last price	GBp	92	Gold price	US\$/oz	1,253	1,261	1,271	1,302	1,350
Target price	GBp	127	Copper price	US\$/t	4,872	6,196	6,554	6,368	7,000
Rec		BUY	Gold production	koz	65.4	59.6	72.8	67.1	65.7
GBPUSD		1.27	Copper production	kt	1.9	2.0	1.6	3.2	3.6
Mkt cap	GBPm	105.2	GE production	koz	75.2	71.6	83.8	85.3	86.9
	USDm	133.7	AISC (incl PSA)	US\$/oz	616	604	541	509	506
EV	GBPm	100.4	Income Statement (\$m)						
	USDm	127.6	Revenues	79.2	71.8	90.4	95.4	99.1	
Av # of sh in issue	mln	114.4	EBITDA	33.7	32.0	49.8	47.4	51.2	
Av # traded, 100d	mln	0.2	margin	43%	45%	55%	50%	52%	
Prices as of 30/05/19			EBIT	11.7	9.2	26.8	21.8	25.1	
			Net Interest	-4.9	-3.5	-1.6	-0.3	-0.0	
			PBT	6.8	5.7	25.2	21.4	25.1	
			Tax	-2.8	-3.2	-8.9	-8.4	-9.6	
			PAT	4.0	2.5	16.3	13.1	15.5	
			EPS basic, cents	3.55	2.23	14.32	11.41	13.59	
			EPS diluted, cents	3.55	2.22	14.32	11.41	13.59	
			Cash flow (\$m)						
			CFO	29.6	29.8	50.7	49.6	52.0	
			Interest paid	-4.0	-3.1	-1.5	-0.3	-0.0	
			Tax paid	-	-	-3.6	-10.4	-11.3	
			Net CFO	25.6	26.8	45.6	38.9	40.6	
			Capex (incl Exploration)	-11.0	-10.5	-18.2	-16.0	-16.0	
			CFI	-11.0	-10.5	-18.1	-16.0	-16.0	
			Issue of shares	-	0.2	0.1	-	-	
			Dividends paid	-	-	-3.4	-8.0	-6.9	
			Proceeds from borrowings	14.1	8.8	14.0	-	-	
			Repayment of borrowings	-27.5	-24.1	-26.2	-7.5	-0.9	
			CFF	-13.5	-15.1	-15.5	-15.5	-7.8	
			Net cash flow	1.1	1.2	12.0	7.4	16.9	
			Cash cf	1.4	2.5	14.5	21.9	38.8	
			Balance Sheet (\$m)						
			Cash	1.4	2.5	14.5	21.9	38.8	
			Receivables/prepayments	16.3	11.3	8.5	8.5	8.5	
			Inventories	34.0	34.0	34.2	32.6	32.6	
			Current assets	51.6	47.8	57.2	63.0	79.9	
			Exploration & PPE	115.3	103.5	98.2	88.6	78.5	
			Non-current assets	116.4	104.4	98.6	89.0	79.0	
			Total assets	168.1	152.2	155.8	152.0	158.9	
			Payables, provisions	21.8	15.2	16.9	16.9	16.9	
			Borrowings ST	26.2	20.1	6.8	0.9	-	
			Current liabilities	48.0	35.2	6.8	17.8	16.9	
			Borrowings LT	9.8	0.6	1.7	-	-	
			Other	27.6	31.0	32.0	34.3	36.6	
			Non-current liabilities	37.4	31.6	33.7	34.3	36.6	
			Total liabilities	85.4	66.8	40.5	52.1	53.5	
			Net assets	82.6	85.4	115.3	99.9	105.3	
			Key financial metrics						
			Net debt/(cash)	34.6	18.1	-6.1	-21.0	-38.8	
			Av # of sh (diluted)	112	113	114	114	114	
			EV/EBITDA	1.7	1.7	1.5	2.7	2.5	
			PER	5.5	13.9	4.9	10.2	8.6	
			FCF (NCF0-Capex)	14.6	16.3	27.4	22.9	24.6	
			FCF yield	67%	47%	34%	17%	18%	
			DY	-	-	10.2%	5.1%	5.1%	
			ROA	2.3%	1.6%	10.6%	8.5%	10.0%	
			P/BV	0.26	0.41	0.70	1.34	1.27	
			Interest coverage	2.4	2.6	17.0	66.9	1596.6	
			Net Debt/EBITDA	1.0	0.6	-0.1	-0.4	-0.8	

Source: SP Angel, Company

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