

28 May 2020

#### Stock Data

Ticker	AAZ LN
Share Price:	130p
Market Cap:	£148m \$183m

#### Price Chart



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## Riding surging gold prices

Anglo Asian Mining is an AIM listed precious and base metals producer running flagship Gedabek operations in western Azerbaijan which include three producing mines and processing facilities. The Company targets 75-80koz GEOs in 2020 with low cost operations providing capital for organic growth opportunities within the highly prospective +1,000km<sup>2</sup> land package, with the potential for additional attractive targets outside Azerbaijan as well as 25% of FCF dividend programme.

#### Strong FCF generation led by robust output, low unit costs and strong gold prices

- The Company is guiding FY20 production at 75-80koz GE in FY20 including 65-67koz gold and 2.2-2.4kt copper (FY19: 70koz gold and 2.2kt copper).
- Production estimates compare to 81.4koz GE produced in FY19 and reflect the change in the ore mix.
- Revenues are expected to post another year of growth as an increase in gold prices is forecast to more than compensate for slightly weaker gold output with Anglo Asian benefiting from >85% exposure to the precious metal.
- EBITDA is expected to come in at \$57m this year implying strong >50% margins on the back of low AISCs costs of \$634/oz.
- FCF is estimated at \$35m in FY20 helping to further grow the net cash position to \$37m by the end of the year (after accounting for ~\$10m in dividend payments), up from \$26m recorded as of Mar/20.
- The cash buffer that is set to expand to >20% of the current ~\$180m market capitalisation represents capital that can be used to grow the business organically, potentially accommodate value accretive M&A or step up dividend payments.

#### Dividends – FY20e 5.0% yield is among the highest among London listed precious metals miners

- In the view of continuing positive FCF generation and a strong balance sheet, the Company announced a FY19 final dividend of 4.5c, an increase over an interim dividend of 3.5c, bringing total FY19 payout to 8.0c or ~\$9m, up on 7.0c for FY18 and , equivalent to ~33% of FCF and implying a stronger payout to the declared dividend policy of 25% of FCF.
- Moving forwards, the Company is well positioned to sustain its dividend policy and potentially distribute more than 25% of annual FCF as was the case in 2018 and 2019. While the Board ultimately has discretion over the dividend policy that is reviewed each year, we estimate that assuming flat dividend of 8.0 cents in 2020 yields 5.0% on the current share price (130p) which is among the highest for London listed precious metals producers (see charts at the back).
- The Company had \$26m in cash in Q1/20, is expected to generate \$35m in FCF in FY20 making 8.0c/\$9m dividend payments well covered and sustainable.

#### COVID-19 containment measures implemented with mining and processing facilities remaining in operation – FY20 production guidance reiterated at 75-80koz GE

- The government of Azerbaijan introduced a series of measures to curtail the spread of the virus including the suspension of domestic travel limiting air flights and closing most of its land borders (including Georgia and Iran). However, these restrictions do not apply to freight shipments with the Company continuing to procure necessary supplies from outside Azerbaijan including cyanide.

- Operations at Gedabek and Gosha have not been included in the Government restrictions and continue to run normally with the management reiterating FY20 production guidance of 75-80koz GE.
- COVID-19 related challenges are currently limited to disruptions in shipments of gold dore due to air travel constraints while Swiss refining capacities that were previously temporarily shut down have since restarted operations and continue to accept dore shipments. Copper concentrate is being trucked from the site and, hence, has not been affected.
- As a precautionary measure the Company agreed a stand-by credit facility for \$15.0m should COVID-19 related restrictions require external sources of funds. The Company estimated that it would cost around \$1m per month to place Gedabek on care and maintenance and around \$4-5m per month to continue running it at full production.
- At the moment, additional expenses related to COVID-19 are minimal (~\$0.1m per month) attributed to chartering aircraft to ship gold dore to Switzerland, staff overtime and some other logistical costs.

#### **Exploration potential – focus on LoM extension at Gedabek and unlocking value at Ordubad**

- Exploration work is continuing in full swing with the team pursuing a two-pronged strategy involving proving up resources and reserves across the Gedabek Contract Area (CA, 300sq km) and Gosha CA (300sq km) extending the life of mine at the Gedabek processing complex as well as carrying surface exploration works at the Ordubad CA (462sq km) testing the Cu/Au-porphyry potential of the prospect.
- The Company is budgeting a ~\$7m exploration programme in FY20 with the majority dedicated to the Gedabek CA where the team shortlisted five discoveries (Avshaclı 1, Avshanlı 2, Gilar, Ugur Deeps and Zefer Cell) that can be fast tracked into production using existing leaching and flotation capacities.
- In house exploration is the cheapest way to add ounces and grow the resource as demonstrated by the Ugur discovery that cost \$2m in exploration costs (\$10/13 per oz in Resources/Reserves) and a total of \$5m when mine construction, haul road and related infrastructure costs are included. The investment delivered ~150koz in reserves or more than two years' worth of production at ~\$50m pa in EBITDA.
- At **Gedabek CA**, exploration works focused on operating sites (Gedabek, Gadir and Ugur) as well as a series of highlighted 'high-priority' targets.
- Tunnel connecting the Gadir decline with the Gedabek orebody is progressing well with workings expected to reach targeted area of mineralisation later this year with drilling chambers being set up in the process to test underground extensions.
- Drilling from surface and underground levels at Gadir returned high grade intersections proving up lateral and down-dip extensions to the orebody.
- Some good results have been recorded at previously identified geophysical anomalies located within the trucking distance of the Gedabek processing plant including at Ayshanlı (1m at 5.27g/t and 0.30% Cu as well as 4.5m at 4.29g/t and 0.49% Cu in trenches; 1.1m at 7.03g/t and 0.45% Cu from surface in a drillhole), Gilar (1.4m at 5.48g/t Au from 23m in a drillhole) and Zefer Cell 9.
- Shallow mineralisation is a priority as these orebodies can be fast tracked into production as was the case with the Ugur discovery. In the latest strategic update, the team highlighted that Ayshanlı, Gilar and Zefer Cell 9 can potentially start supplying feed to the plant in 2022, 2023 and 2025, respectively, subject to exploration results.
- Drilling is ongoing at Ugur, following up on a previous drill intersection of significant copper mineralisation at depth (about 350 metres) adjacent to the Ugur open pit (25m at nearly 2% copper). The topography of the area allows for a low cost access to the mineralisation using an adit and a ramp while existing mine infrastructure including the haul road to offer further development expenses

savings. Exploration is currently planned for 2020-21 with a potential underground mine construction start in 2022 followed by production in 2023.

- Medium to longer term wise, porphyry type mineralisation potential at Gedabek will be assessed during a three year programme from 2021 that may considerably extend the life of mine into mid-2030s if not longer.
- At **Gosha CA**, the team is compiling data from the extended drilling programme to understand whether a potential mine extension can prove economical and warrants infill drilling; step out drilling is currently ongoing; additionally, more work is planned at adjacent targets including Asrickchay, a polymetallic prospect located 7km north of the Gosha underground mine.
- At **Ordubad CA**, the team is working on a geological model to prioritise drilling targets with results to date highlighting significant potential for a greenfield discovery.
- Mapping, sampling, trenching and drilling is being conducted around the Dirnis-Keleki-Aylis-Urchurdag cluster with a number of high grade gold and copper close-to-surface intersections reported in 2019. Additionally, the Company engaged the Natural History Museum (*London*) research team that completed the second site visit in 2019 studying the copper porphyry potential of the area. Preliminary findings suggest the area is highly prospective for mineralisation types associated with a porphyry system. The high potential of the area is further supported by a number of adjacent copper/molybdenum deposits in Iran (Sungun) and Armenia (Agarak and Kajaran).
- Fully funded exploration will provide a busy news flow schedule and offers significant exposure to exciting organic growth potential at Gedabek alone, not to mention the underexplored Ordubad and Gosha contract areas.

#### Valuation

We have adjusted our earnings to take into account reported production guidance and applied our updated gold price forecasts amid investors increasing appetite for safe haven assets and a revision to global growth outlook as authorities embark on an unprecedented fiscal and stimulus programme amid the COVID-19 pandemic.

The Company is guiding FY20 production at 75-80koz GE in FY20 including 65-67koz gold and 2.2-2.4kt copper (FY19: 70koz gold and 2.2kt copper) reflecting the change in the ore mix including higher share of Gedabek open pit ore that is lower grade and requires longer processing times compared to the Ugur material.

Anglo Asian is among few mining companies that is well positioned to benefit from the global flight from risk given its exposure to sought after precious metal, strong balance sheet (see AAZ's Net Debt to EBITDA v other producers in the chart below) as well as commitment to maintain the dividend policy supported by its low AISCs status. The Company's extensive exploration programme is set to extend the life of mine at its Gedabek operations with the processing complex in place to fast track future potential discoveries into production thanks to its versatile setup able to accommodate different types of ores (oxide/sulphide/transitionary). An extension of the life of mine at Gedabek, in turn, should allow the team to accelerate exploration works at Ordubad, a potential source of organic production growth.

Using our updated EBITDA estimates for 2020 and 2021 of \$57m and \$54m, respectively, and applying a target 4.5x times EV/EBITDA multiple we arrive at our target valuation of \$277m and 187p per share. Upside to our valuation includes an increase in reserves allowing for multiple expansion as well as better than estimated gold price performance. With regards to the latter, on flat \$1,750/oz gold price respective estimated EBITDA measures increase to \$61m for both years raising target valuation to \$303m and 204p per share.

#### Catalysts

Exploration update (Ongoing)

Resource and reserves update (Q3/20)

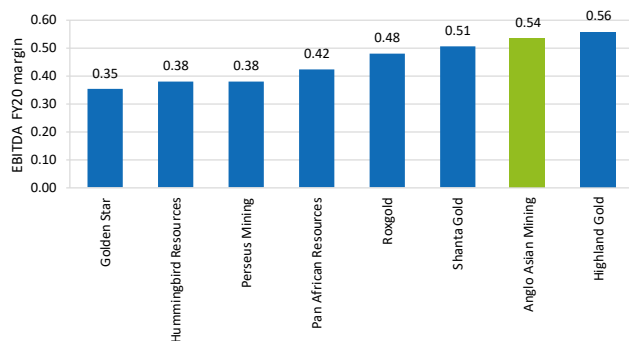
Q2/20 and H1/20 operations report (est. Jul/20)

(Dec year end)		2016	2017	2018	2019	2020E	2021E
Gold price	US\$/oz	1,253	1,261	1,271	1,408	1,649	1,600
Copper price	\$/t	4,872	6,196	6,554	6,027	5,460	6,000
Gold production	koz	65	60	73	70	67	67
Copper production	kt	1.9	2.0	1.6	2.2	2.4	2.4
<b>GE production</b>	<b>koz</b>	<b>75</b>	<b>72</b>	<b>84</b>	<b>81</b>	<b>76</b>	<b>78</b>
<b>AISC (incl PSA, reported)</b>	<b>US\$/oz</b>	<b>616</b>	<b>604</b>	<b>541</b>	<b>591</b>	<b>634</b>	<b>664</b>
<b>Revenue</b>	<b>US\$m</b>	<b>79</b>	<b>72</b>	<b>90</b>	<b>92</b>	<b>107</b>	<b>107</b>
<b>EBITDA</b>	<b>US\$m</b>	<b>34</b>	<b>32</b>	<b>50</b>	<b>50</b>	<b>57</b>	<b>54</b>
<b>FCF</b>	<b>US\$m</b>	<b>15</b>	<b>16</b>	<b>27</b>	<b>19</b>	<b>35</b>	<b>27</b>
<b>EV/EBITDA</b>	<b>x</b>	<b>1.7</b>	<b>1.7</b>	<b>1.5</b>	<b>3.1</b>	<b>2.7</b>	<b>2.9</b>
PER	x	5.5	13.9	4.9	8.6	7.1	8.7
DY	%	-	-	10.4%	5.6%	5.0%	5.0%
<b>Net Debt</b>	<b>US\$m</b>	<b>35</b>	<b>18</b>	<b>-6</b>	<b>-12</b>	<b>-37</b>	<b>-55</b>

Prices as of 26/05/20 (130p)

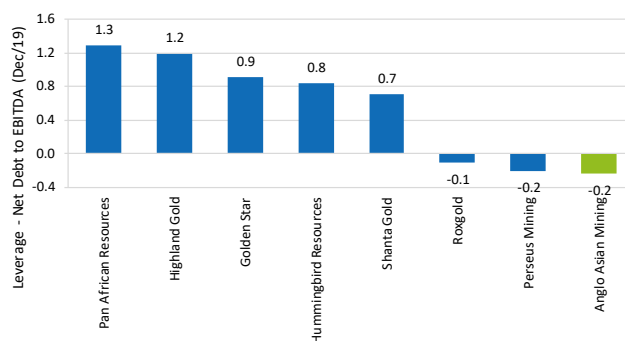
Source: SP Angel, Company

**AAZ EBITDA FY20 margins is among the highest in the industry**



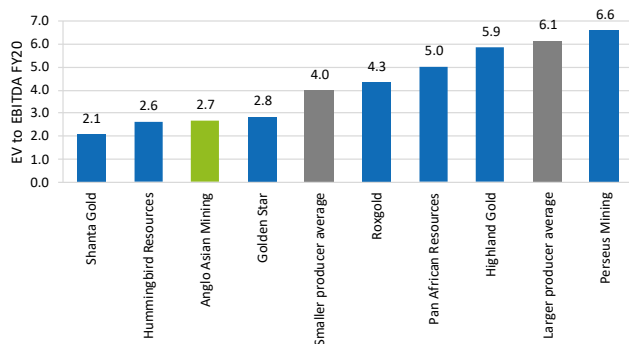
Source: SP Angel, Company, Bloomberg

**AAZ offers strong balance sheet at 0.2x Net Debt to EBITDA as of Dec19**



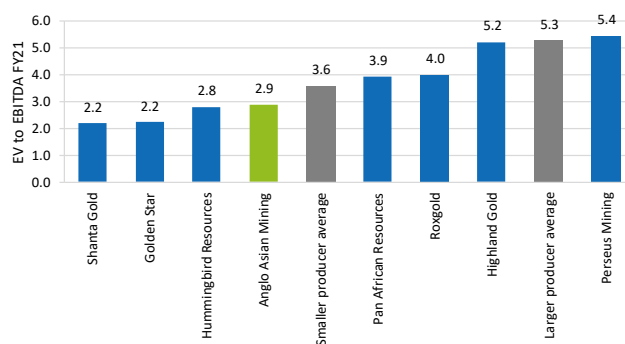
AAZ closing net debt position does not account for \$5.1m of cash in transit that would have taken Net Debt to EBITDA to -0.3x

**AAZ is undervalued on EV to EBITDA FY20 and**

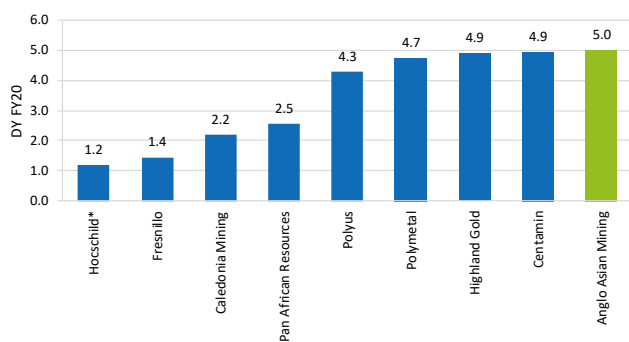


Source: SP Angel, Company, Bloomberg

**... EV to EBITDA FY21 basis**



**AAZ DY FY20 is amongst the top London-listed precious metals miners with strong balance sheet offering good payout sustainability**



AAZ yield assumes the Co pays out 8c in FY20  
 Hochschild have temporarily suspended their dividends  
 Source: SP Angel, Company, Bloomberg

Company	Ticker	Price	Crcncy	Mcap \$m	EV \$m	Sales FY20	Sales FY21	EBITDA FY20	EBITDA FY21	EBITDA FY20 margin	ND/ EBITDA	EV/EBITDA FY20	EV/EBITDA FY21
<b>Producer &lt;\$500m Sales</b>													
Highland Gold	HGM LN	264	GBp	1,185	1,438	437	514	245	276	0.56	1.2	5.9	5.2
Perseus Mining	PRU CN	1.1	CAD	946	957	382	468	145	176	0.38	-0.2	6.6	5.4
Pan African Resources	PAF LN	16	GBp	444	575	271	308	114	146	0.42	1.3	5.0	3.9
Roxgold	ROXG CN	1.4	CAD	376	389	188	186	90	97	0.48	-0.1	4.3	4.0
Golden Star	GSS US	3	USD	322	304	304	329	107	136	0.35	0.9	2.8	2.2
Hummingbird Resources	HUM LN	29	GBp	127	189	190	184	72	67	0.38	0.8	2.6	2.8
Anglo Asian Mining	AAZ LN	130	GBp	183	155	107	107	57	54	0.54	-0.2	2.7	2.9
Shanta Gold	SHG LN	12	GBp	115	141	134	129	68	64	0.51	0.7	2.1	2.2
Smaller producer average												4.0	3.6
<b>Producer &gt;\$500m Sales</b>													
Polymetal	POLY LN	1670	GBp	9,688	11,222	2,513	2,630	1,367	1,452	0.54	1.5	8.2	7.7
Fresnillo	FRES LN	773	GBp	7,027	7,638	2,180	2,485	852	1,105	0.39	0.7	9.0	6.9
Endeavour Mining	EDV CN	32	CAD	2,581	3,166	1,172	1,294	565	654	0.48	2.4	5.6	4.8
Alacer Gold	AQG AU	10	AUD	1,996	2,381	563	565	327	332	0.58	0.7	7.3	7.2
Centamin	CEY LN	171	GBp	2,444	2,166	864	836	465	428	0.54	-1.0	4.7	5.1
Teranga Gold	TGZ CN	11	CAD	1,373	1,768	574	784	256	380	0.45	1.3	6.9	4.7
Petropavlovsk	POG LN	25	GBp	1,023	1,598	1,022	1,050	387	402	0.38	2.8	4.1	4.0
Hochschild	HOC LN	204	GBp	1,294	1,404	625	792	268	379	0.43	0.1	5.2	3.7
Resolute Mining	RSG LN	59	GBp	807	943	622	580	218	264	0.35	1.3	4.3	3.6
Larger producer average												6.1	5.3

Source: SP Angel, Company, Bloomberg (Prices as of 26/05/20)

## SP Angel Earnings Summary – Anglo Asian Mining

\$m unless stated (YE Dec)

Market data			Operating metrics						
			FY17	FY18	FY19	FY20e	FY21e		
Ticker		AAZ LN	USDAZN	1.72	1.70	1.70	1.70	1.70	
Last price	GBP	130	Gold price	US\$/oz	1,261	1,271	1,408	1,649	1,600
Target price	GBP	187	Copper price	US\$/t	6,196	6,554	6,027	5,460	6,000
Rec		BUY	Gold production	koz	60	73	70	67	67
GBPUSD		1.23	Copper production	kt	2.0	1.6	2.2	2.4	2.4
Mkt cap	GBPm	148.1	GE production	koz	72	84	81	76	78
	USDm	182.7	AISC (incl PSA)	US\$/oz	604	541	591	634	664
EV	GBPm	125.4	Income Statement (\$m)						
	USDm	154.6	Revenues	72	90	92	107	107	
Av # of sh in issue	mln	114.4	<b>EBITDA</b>	<b>32</b>	<b>50</b>	<b>50</b>	<b>57</b>	<b>54</b>	
Av # traded, 100d	mln	0.4	<b>margin</b>	<b>45%</b>	<b>55%</b>	<b>55%</b>	<b>54%</b>	<b>50%</b>	
Prices 26/05/20			EBIT	9	27	31	40	32	
			Net Interest	-4	-2	-1	-0	-0	
			<b>PBT</b>	<b>6</b>	<b>25</b>	<b>30</b>	<b>39</b>	<b>32</b>	
			<b>Tax</b>	<b>-3</b>	<b>-9</b>	<b>-11</b>	<b>-14</b>	<b>-11</b>	
			<b>PAT</b>	<b>3</b>	<b>16</b>	<b>19</b>	<b>26</b>	<b>21</b>	
			<b>EPS basic, cents</b>	<b>2</b>	<b>14</b>	<b>17</b>	<b>23</b>	<b>18</b>	
			<b>EPS diluted, cents</b>	<b>2</b>	<b>14</b>	<b>17</b>	<b>23</b>	<b>18</b>	
			Cash flow (\$m)						
			<b>CFO</b>	<b>30</b>	<b>51</b>	<b>38</b>	<b>63</b>	<b>55</b>	
			Interest paid	-3	-1	-1	-0	-0	
			Tax paid	-	-4	-8	-14	-13	
			<b>Net CFO</b>	<b>27</b>	<b>46</b>	<b>28</b>	<b>49</b>	<b>42</b>	
			Capex (incl Exploration)	-10	-18	-9	-15	-15	
			<b>CFI</b>	<b>-10</b>	<b>-18</b>	<b>-9</b>	<b>-15</b>	<b>-15</b>	
			Issue of shares	0	0	-	-	-	
			Dividends paid	-	-3	-9	-10	-9	
			Proceeds from borrowings	9	14	1	-	-	
			Repayment of borrowings	-24	-26	-8	-3	-1	
			<b>CFF</b>	<b>-15</b>	<b>-15</b>	<b>-16</b>	<b>-12</b>	<b>-10</b>	
			Net cash flow	1	12	3	22	17	
			<b>Cash cf</b>	<b>3</b>	<b>15</b>	<b>18</b>	<b>40</b>	<b>57</b>	
			Balance Sheet (\$m)						
			Cash	3	15	18	40	57	
			Receivables/prepayments	11	8	27	22	22	
			Inventories	34	34	44	44	44	
			<b>Current assets</b>	<b>48</b>	<b>57</b>	<b>88</b>	<b>106</b>	<b>122</b>	
			Exploration & PPE	104	98	90	87	80	
			<b>Non-current assets</b>	<b>104</b>	<b>99</b>	<b>93</b>	<b>90</b>	<b>84</b>	
			<b>Total assets</b>	<b>152</b>	<b>156</b>	<b>182</b>	<b>196</b>	<b>206</b>	
			Payables, provisions	15	17	30	30	30	
			Borrowings ST (incl leases)	20	7	3	1	1	
			<b>Current liabilities</b>	<b>35</b>	<b>7</b>	<b>33</b>	<b>31</b>	<b>31</b>	
			Borrowings LT (incl leases)	1	2	3	2	1	
			Other	31	32	37	38	37	
			<b>Non-current liabilities</b>	<b>32</b>	<b>34</b>	<b>40</b>	<b>39</b>	<b>38</b>	
			<b>Total liabilities</b>	<b>67</b>	<b>40</b>	<b>73</b>	<b>71</b>	<b>69</b>	
			<b>Net assets</b>	<b>85</b>	<b>115</b>	<b>109</b>	<b>125</b>	<b>137</b>	
			Key financial metrics						
			Net debt/(cash)	18	-6	-12	-37	-55	
			Av # of sh (diluted)	113	114	114	114	114	
			EV/EBITDA	1.7	1.5	3.1	2.7	2.9	
			PER	13.9	4.9	8.6	7.1	8.7	
			FCF (NCFO-Capex)	16	27	19	35	27	
			FCF yield	47%	34%	12%	19%	15%	
			DY	-	10.4%	5.6%	5.0%	5.0%	
			ROA	1.6%	10.6%	11.5%	13.6%	10.4%	
			P/BV	0.41	0.70	1.53	1.46	1.33	
			Interest coverage	2.6	17.0	26.2	136.4	179.6	
			Net Debt/EBITDA	0.6	-0.1	-0.2	-0.7	-1.0	

Source: SP Angel, Company

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