Responsible Resources & Roots Engagement
Zurich - Helsinki - Toronto

Company ViewPick

Polymetal International

Basic Materials/Russian Federation

ISIN: JE00B6T5S470

Volume 4, Issue 3 — March 31, 2014

London listed company

Polymetal International

is a leading precious metals producer in Russia and Kazakhstan. With a high quality portfolio of gold and silver producing mines and a pipeline of invested growth projects, the company sees its main strategic objective in delivering value to its shareholders through the generation of superior returns on invested capital.

Volatility risk	high
Year high/low	893.00/453.40
Currency	GBp
GBP/EUR	0.83
GDR rate	n.a.
Shares outstanding eoy in mn	389.47
Market capitalisation (total shares) in EUR mn	2,901.8
Free float	50.0%
Free float in EUR mn	1,451.8
Avg. daily turnover (12 m) in EUR mn	824.46
Index	FTSE 100
ISIN code	JE00B6T5S470
Bloomberg	POLY LN
Reuters	POLYP.L

Falling metals' prices endanger operations

Rising cost of sales brought EBIT below expectations:

Due to growing sales volume Polymetal posted a 55% half year on half year (hoh) increase in cost of sales which brought gross profit margin to 26% (below the second half year 2012 level).

As a result operating profit in second half year (2H)2013 came at USD 135 mn.

Lower hoh SG&A expenses and TCC helped to post improvement in EBITDA margin to 36.4%:

In 2H 2013 Polymetal reduced TCC by 8% hoh to USD 721 per oz GE; the reduction came due to operational improvement at the Albazino-Amursk hub.

SG&A expenses also declined and this partly favoured Polymetal to increase EBITDA margin to 36.4% in 2H 2013 from 33.1% in 1H 2013.

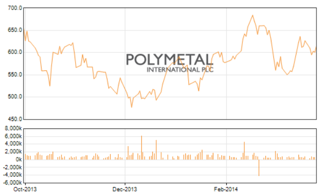
Growing interest expense in 2H 2013 hurt bottom line; liquidity profile remains solid:

In 2H 2013 Polymetal's interest expense surged by 38.6% hoh. This combined with higher income tax charges brought the company's bottom line to USD 57 mn (far below the estimates for 2H 2013).

However, Polymetal reduced its short-term debt by 67% yoy to USD 81.3 mn; FCF remained positive and reduction in investments helped to record an improvement in cash to USD 65.6 mn in FY 2013 from USD 18.6 mn in FY 2012.

Solid liquidity profile allowed management of Polymetal to recommend dividends for FY 2013 of USD 0.08 per share (implying 0.8% dividend yield). If the dividends are approved at the AGM on May 21, 2014; dividends would be paid on May 30 this year and ex-dividend date is on April 30 2014.

Valuation:



Source: Share Price, Polymetal International

Polymetal's FY 2013 results are weak, especially hurt by poor metals' prices on the operating level. While liquidity remains strong we highlight that in FY 2013 net debt/EBITDA surged to 1.75 from 0.92 in FY 2012.

Polymetal re-iterates its production guidance of 1.3 Moz of gold equivalent for 2014 and 1.35 Moz for 2015.

In 2014, the company expects total cash costs of USD 700-750/ "GE oz, all-in sustaining cash costs of USD 975-1025/ GE oz, and capital expenditure of USD 250 mn (including exploration and capitalised stripping).

Special considerations

- **company report**

Considering the cyclical nature of the basic materials, especially the metals markets, in which this company, Polymetal International, operates, this industry can be regarded as very volatile. The major risks are the overall health of the global economy, the development of metals prices as well as the high volatility in input prices and currencies.

Furthermore changes in the regulatory environment may limit the pricing power of the companies or the availability of raw materials and require additional expenditures.

Finally, given the volatility in raw material and product prices and the high capital intensity of this industry, it is crucial to evaluate counterparty risk to mitigate default risk.

- **sector report**

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as real world environmental problem solvers
rather than simply as bystanders!"

Eleni Regli MD