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Equity Research

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## Flash Note

### ARIANA RESOURCES

#### Q1 Preliminary Production

Ariana has announced Preliminary Q1 FY2020 production results that were just 4% below our assumptions. That said, given the strong Precious Metals price environment, significant cash flows in Q1 and the final payment of the \$33million capital loan due in April, Ariana is set to significantly increase distributable cash flows and we remain as positive as ever.

- Q1 FY2020 Preliminary production results** – After announcing to the market in March FY2020 Gold production guidance of 18koz, Ariana announced a strong start to the year with 5,129oz produced in Q1 FY2020, 14% ahead of the company’s annualised quarterly guidance. Silver production was in line with our forecasts (Q1 FY2020: 67,459oz vs PG: 70,000oz). Compared to Q1 FY2019, Gold production declined 30% as the company continues its planned migration to its operations at Arzu North and Derya pits ahead of operations at Arzu South ceasing in Q3 FY2020. As expected, combined grades from the open pits declined to 2.54g/t (Q1 FY2020: 4.04g/t) whilst plant feed grades remain above reserves at 3.22g/t (Q1 FY2019: 4.83g/t). The company continues to stockpile additional ore for processing at a later date.
- Cash generation underpins the investment case** – As intimated by the company announcing a £1.6million maiden dividend from its wholly-owned Turkish operating subsidiary in March, cash generation from the Kiziltepe operations remain strong. Additionally, and possibly more important for all stakeholders, capital loan repayments by Zenit to Turkiye Finans Katilim Bankasi A.S. for the \$33million construction loan will conclude this month. The final repayment, we believe, will provide a material release of capital for the JV to utilise accordingly. Our confidence in future cashflows stem from the strong precious metals price environment, exceptionally low All-in costs of production – inclusive of loan repayment obligations and administrative costs – of ~\$1,150/oz and the company’s track record of all previous payments being made when scheduled.
- Reiterate Buy recommendation and target price of 4.37p** – Our valuation, generated by using a blended average of NAV per share, earnings per share and cash flow per share implies a target price of 4.37p. Our approach to evaluating Ariana uses the same methodology as that applied to our senior Gold equity valuations. The rationale for this is to reflect what we believe is the final evolution in the Ariana investment case, from an exploration and development company to a producer that is profitable and cash generative.

**BUY**

(Remains Unchanged)

Target Price: 4.37p (unchanged)

Share Price: 3.30p

(Price at close 13 April 2020)

Stock Codes ARNR.L / AAU LN

Market Cap £35m

Sector Mining

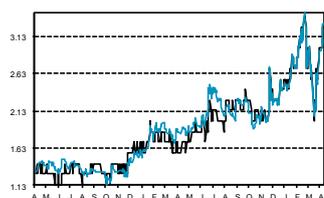
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#### Absolute & Relative Performance



— Absolute

— Relative to DS Mining

Source Datastream

#### Investment Research

Year End Dec	Sales (£m)	PBTA (£m)	EPS (p)	DPS ord (p)	P/E (x)	EV/EBITDA (x)	Yield (%)
2018A	3.8	2.3	0.2	0.0	15.0	15.9	0.0
2019E	4.4	2.9	0.3	0.0	12.2	10.7	0.0
2020E	5.4	3.8	0.3	0.0	9.7	7.0	0.0
2021E	4.9	3.2	0.3	0.0	12.2	7.1	0.0

Source Company Data, Panmure Gordon

**Q1 FY2020 Preliminary Production Results**

		Q1 2020	PG Ests	Q1 2019	% Chg	Vs. PG
Open Pit - Ore Production	t	92,482	50,000	26,746	246%	85%
Process Plant Throughput	t	53,840	50,000	46,824	15%	8%
Process Plant head grade	g/t	2.54	3.50	4.04	-37%	-27%
Recovery rate	%	92.5	95.0	93.7	-1%	-2.6%
Gold Produced	Ounces	5,129	5,350	7,296	-30%	-4%
Silver Produced	Ounces	67,459	70,000	84,109	-20%	-4%

*Source Ariana Resources, Panmure Gordon*

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Overall Global Distribution (Banking Client*)			<b>Buy</b>	Total return of >10% in next 12 months
<b>Buy</b>	<b>Hold</b>	<b>Sell</b>	<b>Hold</b>	Total return >-10% and <+10% in next 12 months
60% (36%)	26% (1%)	14% (0%)	<b>Sell</b>	Total return <-10% in next 12 months
* Indicates the percentage of each category in the overall distribution that were banking and/or corporate broking clients				

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