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Equity Research

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Flash Note

ARIANA RESOURCES

H1 production guidance exceeded due to high grades

Ariana has released its H1 2022 production results, which were 7% above guidance and marginally ahead of PG expectations, due to higher grades from the Kepez vein. Mining continues across four pits, and the company is making use of its expanded processing plant capacity. A second mine, Tavsan, is now under construction, with first production expected in less than 12 months.

- ▶ **Positive H1 2022 production results** – The Kiziltepe mine (of which Ariana owns 23.5% through the Zenit JV) produced 13.38koz of gold during H1 2022. This was 3% ahead of our estimate for the half, and 7% ahead of the company's guidance. Ariana is well on track to meet its full year production guidance of 25koz. A stockpile of ~270kt has been established, and the company is successfully blending this ore with higher grade ore from currently mined areas, particularly the most recently started Kepez pit, where ~60kt of ore has now been mined at an average grade of >5g/t.
- ▶ **Mining above Reserve grades** – At present the company is mining from four separate pits, Arzu South, Arzu North, Derya and Kepez. We note that Ariana continues to mine ore above the originally anticipated grades within its Resources and Reserves. This is due to the under-reporting of grade within drilling results, caused by a loss of fine material during drilling, as well as additional subordinate veins being encountered during mining.
- ▶ **Tavsan mine in construction** – The Tavsan project is now expected to be operational within 12 months, with construction having recently begun. Tavsan, like Kiziltepe was originally developed by Ariana and sold into the Zenit JV; therefore, Ariana now owns 23.5%. Final infill drilling and a Resource/Reserve update are still outstanding, but completion of this is expected later this year along with receipt of a finance package at Zenit level.
- ▶ **Clarification of potential tailings dam lift in previous note** – In our recently published site visit note we discussed the cost of adding an additional lift to the Kiziltepe tailings dam. We should highlight that there is potential for the mine to continue beyond two years, should current Reserves be expanded, and that an additional tailings lift is not currently planned, as there is significant upside margin within its design. The potential cost of this lift would be incurred at the Zenit JV level, of which Ariana owns 23.5%, and the US\$5m quoted is an early-stage estimate of the potential cost to the group. A tailings dam lift would make sense, but only should several additional years of reserves be defined.

BUY

(Remains Unchanged)

Target Price: 5.14p (unchanged)

Share Price: 3.10p

(Price at close 2 August 2022)

Stock Codes ARNR.L / AAU LN

Market Cap £35m

Sector Mining

Last Published Research: 1 August 2022

Analysts

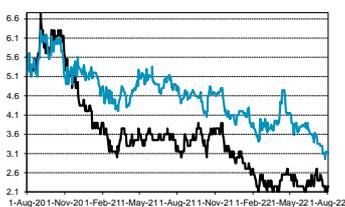
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Absolute & Relative Performance



— 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 (%)
2021A	4.0	1.2	0.5	0.5	6.5	29.4	15.2
2022E	5.4	3.9	0.4	0.0	8.0	6.5	0.0
2023E	4.9	3.3	0.3	0.0	9.7	6.9	0.0
2024E	6.6	4.8	0.5	0.0	6.8	3.5	0.0

Source Company Data, Panmure Gordon

- ▶ **Retain Buy recommendation and 5.14p target price** – Today’s announcement confirms the continued successful operation of the Kiziltepe mine and in particular the excellent grades encountered at Kepez. Ariana is on track to meet its full year production guidance, and we look towards milestones at the Tavsan project as potential catalysts for the shares.

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Distribution of investment ratings for equity research (as of 14 June 2022)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
Overall Global Distribution (Banking Client*)			Buy	Total return of >10% in next 12 months
Buy	Hold	Sell	Hold	Total return >-10% and <+10% in next 12 months
76% (37%)	20% (6%)	4% (0%)	Sell	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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