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Equity Research

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## Flash Note

### ARIANA RESOURCES

#### Q4 Preliminary Production: Another beat to forecasts, Pt 2.

After announcing to the market in its Q3 FY2019 Operational Update that it was notably ahead of plan towards reaching the company's FY2019 Production target of 25koz, Ariana continued to deliver throughout Q4 and delivered accordingly.

► **Q4 & FY2019 Preliminary production results** – After announcing to the market in its Q3 & 9Month Operational Update that the company was ahead of expectations for the second year running, Ariana duly exceeded our expectations for Q4 and in turn, FY2019. Preliminary gold production for the quarter was 7.3koz (down 3% on Q4 FY2018 but +16% vs. PG Ests of 6.3koz). Preliminary gold production for FY2019 of 28.0koz is a marginal improvement on the 27.7koz achieved in FY2018 and 3% ahead of our above guidance forecast of 26.4koz, whilst the company's guidance was for 25koz. As expected, combined grades from the open pits declined to 3.59g/t as lower grade material from Arzu North and Derya are brought into production. Despite this, grades from the open pit have remained above reserve estimates, serving to support stronger than expected production results, whilst the company also continues to stockpile additional ore for processing at a later date.

► **Cash generation underpins the investment case** – Importantly for all stakeholders, capital loan repayments by Zenit to Turkiye Finans Katilim Bankasi A.S. have been made on their scheduled basis and now amount to 88% of the \$33million capital loan taken out. We anticipate the remaining balance to be fully repaid by April 2020, providing a material release of capital for the JV to utilise accordingly. Our confidence in the repayment stems 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 with target price of 3.60p** – 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 3.60p. Our approach to evaluating Ariana now uses the same methodology as that applied to our senior Gold equity valuations. The rationale for this change is to reflect, what we believe, is the final evolution in the Ariana investment case, from an exploration and development company to one that is also profitable and cash generative and is therefore an acknowledgement of this evolution.

**BUY**

(Remains Unchanged)

Target Price: 3.60p (unchanged)

Share Price: 2.55p

(Price at close 15 January 2020)

Stock Codes ARNR.L / AAU LN

Market Cap £27m

Sector Mining

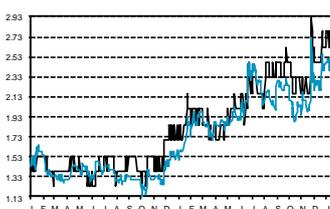
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#### Absolute & Relative Performance



— 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	11.6	12.4	0.0
2019E	4.4	2.9	0.3	0.0	9.4	7.8	0.0
2020E	4.6	2.9	0.3	0.0	10.2	6.5	0.0
2021E	3.8	2.1	0.2	0.0	13.4	8.0	0.0

Source Company Data, Panmure Gordon

- *FY2020 guidance will be announced during Q1, once the updated resource estimation for Kiziltepe has been completed.*

#### **Q4/FY2019 Preliminary Production Results**

		<b>Q4 2019</b>	<b>PG Ests</b>	<b>Q4 2018</b>	<b>% Chg</b>
Open Pit - Ore Production	t	74,034	50,000	63,759	16%
Process Plant Throughput	t	54,735	45,000	49,717	10%
Process Plant head grade	g/t	4.42	4.50	5.23	-15%
Recovery rate	%	92.2	95.0	91.6	1%
Gold Produced	Ounces	7,318	6,320	7,517	-3%
Silver Produced	Ounces	107,074	70,000	90,881	18%

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Distribution of investment ratings for equity research (as of 20 Nov 19)			Rating: GUIDELINE (return targets may be modified by risk or liquidity issues)	
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
62% (47%)	26% (8%)	12% (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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