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Equity Research

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## Flash Note

### ARIANA RESOURCES

#### Interim Results – On track for to meet full year targets

Ariana's H1 FY2019 results, whilst reflecting a solid period of production for the company, are unlikely to provide investors with all the satisfaction desired, due to the sharp increase in precious metal prices occurring after the reporting period ended. We eagerly await the Q3 production results for an indication as to the scale of the benefit accruing from the increase in precious metal prices that we believe Ariana will be enjoying.

► **Interim results reflect strong operational results** – Gross underlying income for the Joint Venture of \$20.5million was in line with our expectations. Importantly, the benefit of the current bull run in precious metals commenced too late in the quarter to make a meaningful impact on prices, so the average realised price of \$1,496/oz – due to silver credits – should excite investors. Operational costs as at the end of Q2 remained towards the lower end of the global cost curve, at a similar level to the ~\$399/oz level seen in Q1, although Q2 also included the payment of the 2018 State Right meaning total operational costs in Q2 of \$589/oz, in total, costs remained below \$500/oz for the six-months. We estimate all-in costs for the Red Rabbit JV (inclusive of project finance repayments) remains below \$1,000/oz. Profit after tax at the Plc level increased to £2.3m from £2.2m, receivables due to the Plc increased to £4.2m from £1.9m, however cash balances fell in the period to £0.6m from £0.94m

► **H1 FY2019 Production beat our forecasts** – As a reminder, Ariana's H1 FY2019 update, announced in August, provided a solid foundation for the company to exceed our production forecasts. Plant feed grades continued to exceed reserve grades at 4.18g/t vs 3.11g/t (PG Ests: 4.25g/t), however, there was the expected reduction from the exceptional 4.83g/t seen in Q1 FY2019 as the pushback of the southern wall of the Arzu South progressed and lower grade material was utilised. Following the southern wall pushback, Q3 production rates should see ore production rates recover. Metallurgical recoveries increased quarter on quarter, up to 95.2% from 93.7% and continue to exceed our 92% assumptions. In total, H1 FY2019 gold production of 13,734oz is comfortably ahead of H1 2018 (12,037oz) and leaves the company on track to meet its FY2019 gold production target of 25,000oz.

Continued

**BUY**

(Remains Unchanged)

Target Price: 3.18p (unchanged)

Share Price: 2.25p

(Price at close 27 September 2019)

Stock Codes ARNR.L / AAU LN

Market Cap £24m

Sector Mining

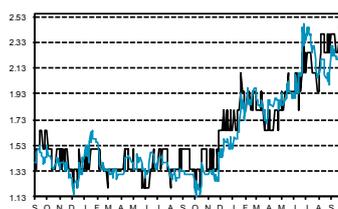
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#### Absolute & Relative Performance



— 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	3.5	2.1	0.2	0.0	11.3	11.5	0.0
2019E	5.4	4.2	0.4	0.0	5.6	4.5	0.0
2020E	5.2	3.8	0.4	0.0	6.4	3.8	0.0
2021E	6.5	5.1	0.4	0.0	5.4	2.4	0.0

Source Company Data, Panmure Gordon

- ▶ **Project loan repayment date nearing** – One of the major catalysts, we believe, for shareholders will be the repayment of the original project loan, amounting to \$33million. As at the end of H1 FY2019, \$22.8million has been repaid and by the end of Q3 FY2019, we expect >\$25million to have been repaid, thus providing a sound foundation for the loan to be fully repaid in FY2020. Our confidence is supported by a sharp increase in intercompany loan repayments amounting to \$2.9million at the end of H1 FY2019 and the knowledge that the recent increase in precious metals prices will further increase this, at least for the near term.
- ▶ **Reiterate Buy recommendation with target price of 3.18p** – 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 3.18p. Our approach to evaluating Ariana has recently been changed to use 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

*Panmure Gordon is a market maker in this company, has in the previous 12 months made agreements with this company for investment banking services and will be compensated by the company for these services.*

# 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
66% (47%)	27% (8%)	7% (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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