



Gold Mining



Source: Eikon

Market data

EPIC/TKR	TSG
Price (p)	55.30
12m High (p)	132.80
12m Low (p)	45.75
Shares (m)	87.16
Mkt Cap (£m)	48.19
EV (£m)	54.19
Free Float*	24.3%
Market	AIM

*As defined by AIM Rule 26

Description

Trans-Siberian Gold (TSG) operates the low-cost, high-grade Asacha gold-silver mine in Far East Russia. The recently acquired Rodnikova deposit, 50 km away, gives TSG further growth opportunities.

Company information

CEO	Alexander Dorogov
CFO	Sergey Kryazhevskikh
Chairman	Charles Ryan
	+44 1480 811871
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Key shareholders

UFG Group	75.2%
Quilter Cheviot	15.6%
KST Beteiligung	5.4%
UBS Wealth Mgt.	2.2%

Diary

Apr'20	1Q production
Jun'20	2019 final results
Jul'20	2Q production
Sep'20	2020 interim results

Analyst

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TRANS-SIBERIAN GOLD

Striving to return cash

TSG is a high-grade, low-cost gold miner with a strong track record of returning cash to shareholders. Since the end of 2015, the company has returned \$21.5m in ordinary and special dividends. The acquisition of the Rodnikova deposit for \$3.0m has added an additional 1.01m oz of low-cost resources, and represents a first step towards transforming TSG from a single asset to a potentially multi-asset gold producer. TSG's valuation on EV/resources is at the low end of the peer group, and a sustainable \$3m p.a. dividend payout provides a yield of 4.9% - with significant upside potential in a gold bull market.

- **Strategy:** TSG's strategy is to become a premier mid-tier gold miner that generates industry-leading returns via operating excellence. It will achieve this by enhancing the current operations at the Asacha gold mine and using them as a platform for further growth, including accretive M&A transactions.
- **Low-cost production:** The Far East Russia jurisdiction provides subsidies to energy costs and lower taxes/royalties from being located in a special economic zone. Resources at the Asacha mine are high-grade, with Measured & Indicated at 14g/t and Inferred at 20g/t. Guidance for FY 2020 cash costs is \$780-\$860/oz.
- **Growth opportunity:** TSG acquired the licence to the Rodnikova deposit for \$3m and published a JORC-compliant resource estimate of 1.01m oz at 5g/t. A scoping study is due shortly, exploration is planned to delineate additional resources, and there are plans to fast-track the project towards production.
- **Risks:** TSG faces the normal risks for a junior miner, albeit without the funding risk faced by explorers. These risks include volatility in gold and silver prices, political risks, environmental risks, and operational risks in successfully executing the mining plan and operating downstream processing facilities.
- **Investment summary:** On EV/resources, TSG's valuation of \$54.50/oz is at the low end of the peer group, which has an average of \$72.50/oz. TSG is committed to paying a "base level" of sustainable dividends of \$3m p.a., with special dividends as appropriate. This gives a sustainable yield of 4.9% and potential for a much higher yield in a gold bull market.

Financial summary and valuation

Year end Dec (\$000)	2014	2015	2016	2017	2018	2019E
Sales	46,184	44,069	45,202	43,447	59,769	63,110
Underlying EBIT	4,439	8,768	11,339	4,299	18,003	18,844
Reported EBIT	4,439	8,768	11,339	4,299	18,003	18,844
Underlying PTP	3,140	6,614	9,326	3,036	16,963	17,485
Statutory PTP	3,140	6,614	9,326	3,036	16,963	17,485
Underlying EPS (\$)	-0.12	4.75	6.42	2.29	11.30	12.05
Statutory EPS (\$)	-0.12	4.75	6.42	2.29	11.30	12.05
Net (debt)/cash	18,186	-7,590	-3,658	-12,340	-7,368	-7,000
Shares issued (m)	110.05	110.05	110.05	110.05	110.05	99.26
P/E (x)	n/a	14.9	11.0	30.9	6.3	5.9
Total dividend (c)	n/a	n/a	5.0	5.7	7.7	6.0
Dividend yield	n/a	n/a	7.1%	8.0%	10.9%	8.5%

Source: Hardman & Co Research

Overview and strategy

Kamchatka peninsula in Far East Russia

TSG is a low-cost, high-grade gold mining company with a strong track record of returning cash to shareholders. The company operates the Asacha gold mine in the Kamchatka peninsula in Far East Russia. Asacha is an epithermal gold-silver deposit.

While high ore grade is key, TSG’s low-cost status is helped by its location in Far East Russia. It benefits from subsidised energy costs that aim to reduce costs for industrial consumers and increase investment in Kamchatka and other regions.

Strategy is to generate industry-leading shareholder returns

TSG’s strategy is to become a premier mid-tier gold producer that generates industry-leading shareholder returns within a framework of operational excellence and meeting its social/environmental responsibilities. It aims to achieve this by enhancing its current operations and using them as a platform for further growth, including the pursuit of accretive M&A transactions.

Strong track record of returning cash

The company has a proven track record of returning high levels of capital to its shareholders. Between 2015 and 1H’19, the company returned \$21.5m cash to shareholders, which compares with a current market cap. of \$61.68m (£48.19m). TSG will pay special dividends over and above a steady “base level” dividend payment of ca. \$3m p.a. over the cycle.

Asacha mine & Rodnikova project

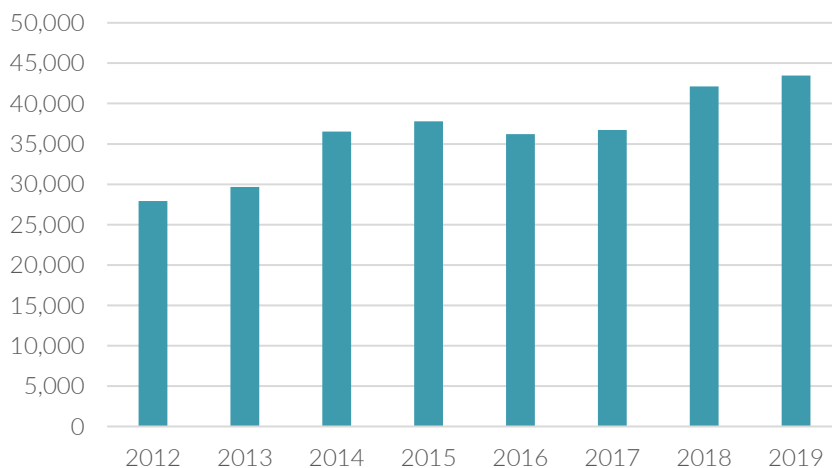
Two zones of mineralisation at Asacha

The Asacha deposit has two zones of known mineralisation. The “Main Zone” consists of two primary veins, which are the largest and most continuous, and four additional veins. In the “East Zone”, there are three additional veins. The Main Zone has a strike length of 1,500m and the East Zone 400m.

The Main Zone is currently being mined, with ongoing work to commence production on Vein 25 in the East Zone. Ore is processed by a conventional crushing, grinding, cyanidation and CIL (carbon-in-leach) route.

In 2019, TSG achieved a 3.2% rise in gold production to a record of 43,479 oz (42,128 oz in 2018), which was at the upper end of the 40,000-44,000 oz guidance. Guidance for 2020 gold production is in the range 38,000-42,000 oz.

Trans-Siberian Gold – gold production, 2012-10 (oz)



Source: Hardman & Co Research

Trans-Siberian Gold

Restated resources estimate at Asacha

In January 2020, a new JORC-compliant resource estimate was published after recent drilling and internal estimates indicated that the existing *in-situ* resource from 2018 could have been over-estimated. A complete re-evaluation of the resource model, including new drilling data, vein interpretations (lower mineralisation at depth) and concerns about stability, led to the following resource estimate (Au = gold, Ag = silver).

Asacha mine – mineral resource estimate (JORC-compliant)						
	Zone	000 tonnes	Au g/t	Ag g/t	Au (000 oz)	Ag (000 oz)
Measured	Main	72	12	37	28	85
Indicated	Main	124	10	48	40	193
Indicated	East	43	31	39	42	54
Total M& I		239	14	43	111	332
Inferred	Main	101	14	30	45	98
Inferred	East	211	23	36	157	245
Total inferred		313	20	34	202	343
Total resources					313	675

Source: Hardman & Co Research

Mine life currently 6.8 years

Compared with the resource estimate of December 2018, the reduction in total gold resources was 240,494 oz, or 182,446 oz (33.0%) net of mine production in the intervening period. The new resource of 312,558 oz represents a resource base of 6.8 years, based on 2019 gold production of 43,479 oz and 95% recovery.

TSG's mining consultant, SKUL, also published tentative resource targets for the QV18 and QV25 veins in the East Zone:

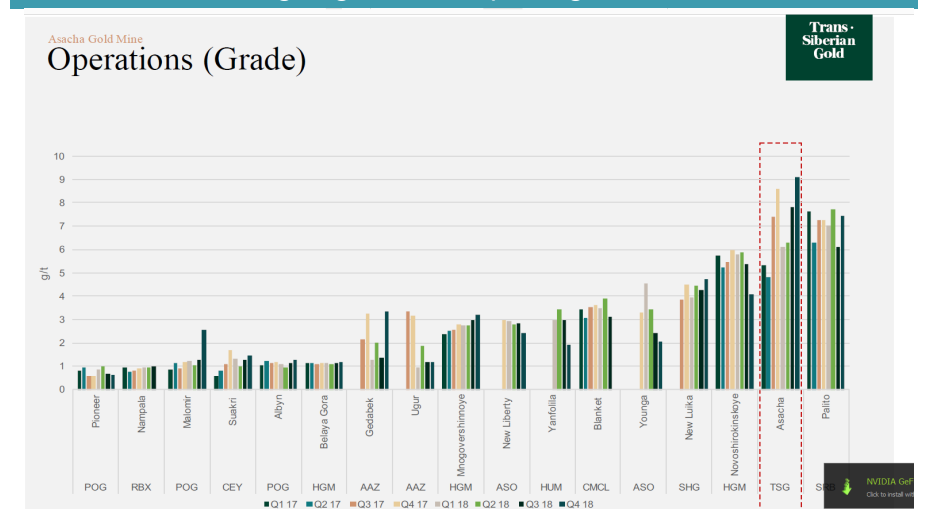
- ▶ **QV18:** 33,000-270,000 tonnes of ore at a gold grade of 3.5-5.0 g/t; and
- ▶ **QV25:** 30,000-60,000 tonnes of ore at a gold grade of 15.0-35.0 g/t.

Using this range of outcomes for tonnage and grade, and a recovery rate of 95%, potential recoverable gold reserves from near-term exploration could amount to an additional 17,000-105,000 oz., i.e. up to about one third of the current resource.

Very high gold grades

In 2019, TSG's production returned an average processed gold grade of 7.8 g/t. The very high gold grades differentiate the company from its peers.

Trans-Siberian Gold – gold grade versus peers (g/t)



Source: TSG, company reports

In 1H'19, total cash costs fell by 24.6% to \$672/oz (\$891/oz in 1H'18) and AISC (All-In Sustainable Cost) declined by 38.0% to \$850/oz (\$1,370/oz). Higher grades and the weaker Rouble had a positive impact. Guidance for 2020 for cash costs and AISC is \$780-860/oz and \$900-1,000/oz, respectively.

Rodnikova has more than 1.0m oz of JORC-compliant resources

In April 2019, TSG acquired a 20-year exploration and development licence for the Rodnikova deposit for \$3.0m. Rodnikova is also a high-grade gold-silver deposit with similar geology to Asacha. In February 2020, a JORC-compliant resource estimate was released of 1.01m oz of gold at 5.0g/t. TSG aims to publish a scoping study in 2Q'20, delineate additional resources and fast-track the project to production.

Valuation, management and shareholders

Low valuation on EV/resources

TSG's valuation on EV/total resources (Measured, Indicated and Inferred) of \$54.50/oz is at the low end of the peer group, which has an average of \$72.50/oz.

TSG – EV/total resource valuation comparison

US\$/oz	
Anglo Asian Mining	122.8
Caledonia Mining	99.7
Petropavlovsk	68.0
Serabi Gold	64.0
Highland Gold	62.7
Shanta Gold	61.8
Hummingbird Resources	28.4
Average	72.5
TSG	54.5

Source: Hardman & Co Research

Base level of sustainable dividends of \$3m p.a.

TSG's commitment to paying a "base level" of sustainable dividends of \$3m p.a. (with special dividends as appropriate) gives a sustainable yield of 4.9% at the current market price. In a gold bull market, there is obviously significant upside.

The non-executive Chairman, Charles Ryan, is chairman of TSG's major shareholder, UFG Asset Management, which is one of the largest western-owned asset managers focused on Russia. CEO, Alexander Dorogov, was appointed on 13 July 2018, and is the former CEO of the Alumina division of UC Rusal. Sergey Kryazhevskih was appointed CFO on 12 July 2019. Kryazhevskih was the former CFO of JSC Pavlik, another gold miner operating in Russia's Far East.

Free float now 24.3%

In May 2019, TSG agreed to buy back ca.20.8% of its shares from two major shareholders, Destin Investment Management and UFG PE Fund (having reached maturity) for £7.6m. A further ca.10.4% of its shares were sold by the same shareholders to other members of UFG, directors and new shareholders. This reduced UFG's stake from 86.2% to 75.2%, increasing the free float to 24.3%.

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