

Central Asia Metals

Defending the dividend

Central Asia Metals (CAML's) recent annual results show that the company recorded another profitable year in 2015. With a final dividend of 8.0p, the company is maintaining the total dividend at 12.5p, resulting in a dividend yield of 7.1% at the current share price.

CAML has been profitable ever since it started its operations in 2012, despite a downward trend in the copper price, which hit six-year lows in 2015.

CAML's main asset is its Kounrad copper dump treatment operation, in Kazakhstan. The copper dump treatment process recovers copper from waste, originating from the Kounrad open-pit copper mine, through an SX-EW plant, without the need for expensive mining. In 2015, Kounrad increased production by over 8%, to 12,071 t and reduced its already low unit costs by 3%, reinforcing its position as one of the lowest-cost copper producers in the world. Despite the increased copper tonnes sold, revenues were lower because of a decline in the price of copper. CAML earned US20c per share in 2015, against comparable earnings of US25c per share in 2014.

After completing an expansion of its plant in 2015, CAML expects to increase copper production to 13,000-14,000 t in 2016. Work to access resources in the western dumps, which will allow operations to continue through to 2034, has commenced.

The company had cash of US\$42 million and no debt at the end of 2015.

Year	Cu prod (kt)	Cash costs (US\$/lb)	Rev. (US\$M)	EBITDA (US\$M)	EBITDA margin (%)	EPS (USc)
2015	12.1	0.60	67.3	34.9	52	20.1
2016f	13.4	0.60	67.3	35.3	52	14.6
2017f	14.2	0.65	77.9	31.6	47	13.3

Source: Marten & Co

Valuation summary

The sum-of-the-parts NAV calculation of CAML, in Figure 2, is 197.5p per share. This suggests it is currently trading at 89% of this NAV.

Listed	LSE
Ticker	CAML LN
Base currency	GBP
Price	176.62
Daily volume (1-year avg)	127k shares
1-year high	194.0
1-year low	124.0
1-month performance (%)	11.8
3-month performance (%)	41.3
1-year performance (%)	(2.4)
Calendar YTD performance (%)	15.2
Yield (%)	7.1

Perf. vs Aim Basic Res. rebased

Time period: January 2013 to April 2016



Source: Bloomberg

Net cash (US\$ million)	42.0
NAV ^{8%} per share	197.5p
Price/NAV	89%
Market cap (£ million)	198.0
Shares outstanding (million)	112.1

[Click here for our initiation note](#)

CAML released its 2015 annual results on 11 April 2016.

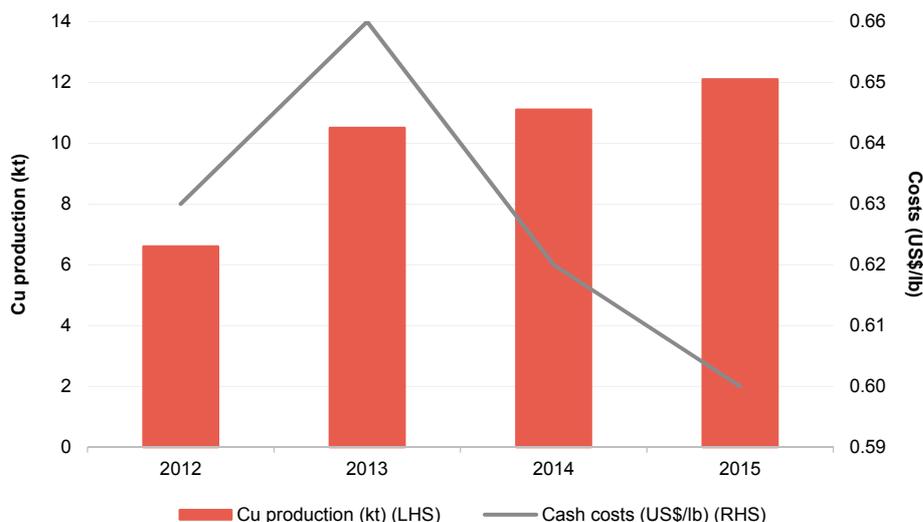
2015 results

In 2015, CAML produced a record 12,071 t (12.1 kt) of copper from its Kounrad operation, an increase of 8% on 2014.

CAML's operating costs rose by 13% year-on-year, due to a combination of the increased output and higher electricity costs. However, on a unit of production basis, CAML's C1 cash costs fell by 3%, when compared to 2014, to US\$0.60/lb in 2015 (note: C1 cash costs are a standard metric used in copper mining, as a reference point, to denote the basic cash costs of running a mining operation – a more detailed explanation of the term is available in the QuotedData glossary or on page 28 of QuotedData's initiation note for CAML). The company says that the reduction was due to a decrease in the fixed buyer's fee on copper cathode sales and a devaluation in the tenge (Kazakhstan's currency).

Copper production and cash costs since start-up of operations at Kounrad are shown in Figure 1.

Figure 1: Annual copper production and costs



Source: Central Asia Metals

The company has adopted an industry standard for defining its C1 cash costs and now reports these inclusive of local administration expenses and before Kazakhstan mineral extraction tax.

The company sold a total of 12,040 t of copper in 2015 (an increase of 8% compared to 2014). The majority of the sales were made through an offtake agreement with international commercial services group, Traxys, at an average price of US\$5,336/t, 21% lower than in 2014. Consequently, gross revenue decreased by 12% to US\$67.3 million.

Earnings before interest, taxes, depreciation and amortisation (EBITDA) for the year were US\$34.9 million, down from US\$47.3 million the previous year, when results included a one-off financial gain.

With its final dividend, CAML will have distributed US\$74 million to shareholders, a significantly greater sum than the US\$60 million CAML raised at its 2010 initial public offering (IPO).

CAML earned US\$22.2 million in 2015 against a figure of US\$59.5 million in 2014, when the results benefited from a one-off non-cash gain of US\$33.0 million. This occurred as a result of a revaluation of CAML's initial 60% stake in Kounrad, when it consolidated ownership to 100%. The 2015 figure includes a foreign exchange rate gain of US\$9.0 million. Earnings per share were US20.2c (2014:US24.9c excluding the one-off gain).

The company has reported that it intends to pay a final dividend of 8.0p, taking the total dividend for the year to 12.5p, identical to 2014, and equivalent to 30% of gross revenue.

The tenge suffered an 85% devaluation over the course of 2015 and, reflecting this, the company has recorded significant foreign exchange losses within fixed assets on its balance sheet. This has led to a fall in CAML's total assets from US\$216.3 million to US\$133.1 million. As a further result of the tenge devaluation, the company has also recognised a non-cash loss of US\$77.4 million in shareholder equity.

As at 31 December 2015, the company had cash of US\$42.0 million and no debt.

2016 forecast production

In Q1 2016, Kounrad achieved copper production of 3,207 t, which is 36.5% higher than the corresponding period of 2015. The increase reflects both the completion of the expansion of the solvent extraction and electro-winning (SX-EW) plant in Q2 2015 as well as milder winter conditions, which allowed a higher volume of pregnant leach solution (PLS – a solution containing dissolved copper minerals) to be processed.

CAML expects copper production to rise to between 13,000 t and 14,000 t in 2016.

The company reveals that it is on track to achieve its 2016 production guidance of between 13,000 t and 14,000 t of copper.

Update on Kounrad expansion

CAML expanded the SX-EW plant by 50% in 2015 and it is now fully operational. In March 2016, the company commenced groundworks on the US\$19.5 million second stage of the expansion programme, which will enable it to leach copper from the larger resource within the western dumps. The 12 km, 10 kilovolts (kv) overhead power line and substation are now complete, and management say that a significant portion of process equipment and pipes has been delivered to site.

Stage 2 expansion is on track and being funded from cash flow.

The company expects to produce the first copper from the western dumps in H1 2017.

CAML is also looking at ways to extract some of the residual copper in the eastern dumps, through an intermediate leaching system, once primary operations move to the west.

Copper Bay progress

CAML has a 75% interest in private company, Copper Bay Limited (Copper Bay). As detailed in QuotedData's initiation note, Copper Bay is evaluating the potential to

process beach-deposited copper tailings (the waste product from a mine processing plant) at Chañaral, in northern Chile.

A definitive feasibility study on Copper Bay is expected by the end of 2016.

In 2015, CAML injected US\$3 million into Copper Bay to enable it to undertake a definitive feasibility study, which is reportedly on schedule for completion in late 2016.

CAML says that the study will focus on reducing the initial capital investment (estimated at US\$88 million in the 2015 pre-feasibility study) and lowering life-of-mine operating costs. These were estimated at US\$1.34/lb in the pre-feasibility study.

Board changes

The company has announced that Nigel Hurst-Brown is stepping down as chairman and that the current chief executive officer, Nick Clarke, will assume the role of executive chairman. Mr Hurst-Brown will remain on the board as a non-executive director in the role of deputy chairman.

In addition, technical director, Howard Nicholson, will be stepping down from the board. He will remain with the company as an employee and will continue to oversee delivery of the western expansion programme at Kounrad.

Gavin Ferrar, business development director, will be appointed to the board.

All board changes are to take place at the conclusion of the company's AGM on 8 June 2016.

Valuation

The valuation model below is on a sum-of-the-parts basis. It takes into account the net present value (NPV) of the Kounrad operation, based on company projections for production and costs. Copper Bay is being treated as an investment. It is valued on the basis of CAML's investment thus far of US\$6.2 million.

The model suggests an NAV for CAML of 197.5p. CAML is trading at 89% of this figure.

Figure 2: Valuation model for CAML

	US\$M	£M**	GBp/share
Kounrad NPV ^{8%*}	273	188	167.9
Investments (Copper Bay)	6	4	3.8
Cash	42	29	25.8
NAV	321	221	197.5

Source: Marten & Co * NPV discounted at 8% ** at US\$1.45/£

Kounrad operations

After a temporary disruption to operations in the middle of 2015, due to the failure of a piece of equipment in the plant, copper production improved in the second half of the year to reach a record level in Q4. The company says that this was a result of the higher capacity with the completion of the Stage 1 expansion and mild winter temperatures, which allowed higher pregnant leach solution (PLS) flow rates and grades.

The model assumes copper production of 13.4 kt at a cash cost of US\$0.60/lb for 2016.

After four years of operations, the company has collected data that indicates that leach times through the eastern dumps are longer than originally projected (240 days against 180 days). Despite this, CAML's management says it is confident that, with an increased area of dump being leached, it has enough flexibility within the process to achieve the production target for the current year.

Q1 is historically the lowest production quarter of the year, but Q1 2016 production was up over 36% from Q1 2015 to 3.2 kt. Given this, it is possible that the company's output target for the year of 13-14 kt could be achieved. The valuation model assumes 2016 output at roughly the midpoint of the company's guidance.

Unit costs in 2015 averaged US\$0.60/lb. The valuation model assumes that these costs, given the increase in production, will be held at that level in 2016. However, the valuation model has a reduction in fully absorbed unit costs, in the future, to reflect a lower depreciation charge. This reflects the decision by CAML's management to extend the useful economic life of certain assets, and the fair-value uplift on the 2014 Kounrad transaction, after receiving approval for the Stage 2 expansion. The company has extended the original useful life of the operation of 10 years through to 2034, which represents the end of the subsoil use licence.

The NPV for Kounrad assumes that the company achieves first production from the Western dumps in 2017 and successfully brings them into full production in 2018 as activities at the eastern dumps wind down. The model also assumes that copper production will increase in 2016, 2017 and 2018, before settling back to a steady rate of just under 13 kt/y until the licence expires in 2034.

Based on the market discussion on page 6 below, the copper price assumptions detailed in QuotedData's initiation note of 24 February 2016, continue to be used. These are a price of US\$5,000/t (US\$2.27/lb) in 2016; US\$5,500/t (US\$2.50/lb) in 2017; and thereafter a long-term price of US\$6,600/t (US\$3.00/lb).

Copper Bay project

The model values CAML's investment in Copper Bay at the cost of acquisition of its 75% interest, which is US\$6.2 million. A definitive feasibility study is scheduled for the end of 2016. Its completion should provide greater clarity regarding the economics of the project. Assuming that CAML then makes the decision to develop Copper Bay, it seems that a switch to a DCF based valuation approach would then be appropriate.

Based on the pre-feasibility study, the project could commence operations in 2019, treating up to 5 Mt/y to produce 8.2 kt/y of copper for seven years for a capital cost of US\$88 million.

Dividend

The company is proposing to pay a final 2015 dividend of 8p per share (30% of Kounrad revenue), taking the total for the year to 12.5p (the same as 2014). The company is maintaining its commitment to its dividend policy, despite the high capital expenditure planned for the western dumps, at Kounrad this year, and the current uncertainty in the copper market.

Maintaining its dividend policy is of paramount importance to CAML and will dictate any future project developments.

According to chief executive, Nick Clarke, maintaining the dividend policy is key to strategic planning, and he has said that CAML will not consider any financing plans for Copper Bay that would jeopardise its own dividend policy.

Sensitivity analysis

The sensitivity of the sum-of-the-parts NAV estimate for CAML has been analysed with respect to changes in the key variables: copper price and discount rate. The results are shown in Figure 3.

According to the valuation model, CAML should continue to generate free cash flow, even at prices 30% below the base case price of US\$6,600/t (long term).

Figure 3: NAV sensitivity analysis (GBP per share)

Discount rate	Copper price (US\$/lb)						
	-30%	-20%	-10%	Base	+10%	+20%	+30%
5%	127	164	200	237	273	310	346
8%	108	138	168	198	228	257	287
10%	98	124	151	177	204	230	257
12%	89	113	137	160	184	208	231

Source: Marten & Co Assumptions: US\$1.45/£; shares outstanding 112.1 million

The company's NAV is relatively insensitive to downside risk in copper prices.

Update on the copper market

Copper prices fell significantly last year and after averaging US\$5,510/t for the year, fell to a near seven-year low of US\$4,138/t in mid-January 2016. Since that low, prices have recovered by approximately 17%, to around US\$4,850/t.

According to the GFMS Copper Survey 2016, the copper market in 2015 reported a small surplus for the fourth year in a row. GFMS estimated refined production at 22.2 mt against consumption of 21.9 mt. Despite a number of high-profile mine closures in 2015, copper supply continued to rise from 21.7 mt in 2014 to 22.2 mt in 2015. Primary mine production (excluding secondary copper from recycling) rose 3%, to 18.7 mt in 2015. Turning to refined consumption, continued growth in demand from China and to a lesser extent from the US, offset a marginal decline in European consumption, so that the market grew by just over 1%. Chinese demand accounted for 46% of global demand.

Looking forward, demand is expected to continue to rise, albeit at a slower pace than in recent years. Mine supply is expected to increase again in 2016 as expansion projects at existing mines come to fruition and mines that started in the last few years ramp up to full capacity.

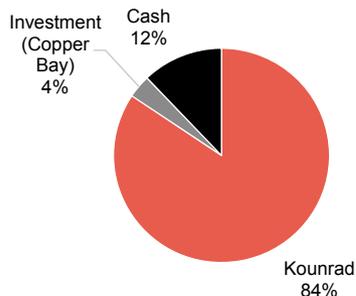
Copper prices are expected to remain soft until 2018.

Within a couple of years, however, the situation is expected to change to a more positive environment for prices as mine grades continue to fall (reducing output) and prospective new, high-capital-intensity projects struggle to secure the necessary financing. In summary, copper prices are expected to remain soft until 2018.

Figure 4: Central Asia Metals summary

Sum-of-the-parts valuation – April 2016	US\$M	Pence per share
Kounrad NPV ^{8%}	292	180
Investments (Copper Bay)	6	4
Subtotal	279	172
Net cash/(debt)	42	26

NAV	321	198
Asset valuation summary		

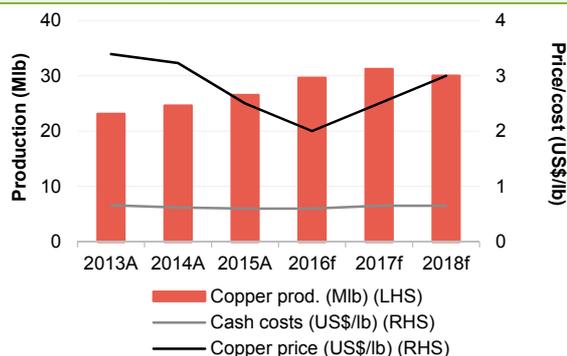


CAML share price



NAV sensitivity analysis (pence per share)							
Disc. rate	-30%	-20%	-10%	Base	10%	20%	30%
5%	127	164	200	237	273	310	346
8%	108	138	168	198	228	257	287
10%	98	124	151	177	204	230	257
12%	89	113	137	160	184	208	231

Production summary



Copper resources (2013)	Mt	Cu %	kt
Kounrad			
Indicated	386.0	0.10	368.2
Inferred	261.1	0.09	246.0
Copper Bay			
Indicated	42.6	0.24	101.2
Inferred	5.4	0.23	18.8

Y/E 31 December, all figures in US\$ million unless otherwise stated

Forecast assumptions	2014	2015	2016f	2017f	2018f
Copper price (US\$/t)	7,114	5,510	5,000	5,500	6,600
Copper price (US\$/lb)	3.23	2.50	2.27	2.50	3.00

Production summary	2014	2015	2016f	2017f	2018f
Kounrad					
Average flow rate (1,000/hr)	771	784	930	1,000	1,000
PLS grade (Cu g/l)	2.24	230	2.20	2.20	2.10
Recovery (%)	73.5	75.0	75.0	75.0	75.0
Copper production (kt)	11.1	12.1	13.4	14.2	13.6
Cash costs (US\$/lb)	0.62	0.60	0.60	0.65	0.65
Fully absorbed costs (US\$/lb)	1.65	1.58	1.38	1.43	1.47
Copper Bay					
Tonnes treated (kt)	-	-	-	-	-
Grade (Cu%)	-	-	-	-	-
Cathode production (kt)	-	-	-	-	-
Copper in concentrate production (kt)	-	-	-	-	-
C1 cash costs (US\$/lb)	-	-	-	-	-
Fully absorbed costs (US\$/lb)	-	-	-	-	-

Company					
Total copper production (t)	11.1	12.1	13.4	14.2	13.6
Cash costs (US\$/lb)	0.62	0.60	0.60	0.65	0.65
Fully absorbed costs (US\$/lb)	1.65	1.58	1.38	1.43	1.47

Profit & loss summary	2014	2015	2016f	2017f	2018f
Revenues	76.6	67.3	67.3	67.2	77.9
Cost of production	(9.4)	(10.4)	(11.9)	(14.1)	(14.1)
Mineral extraction tax	(4.4)	(3.8)	(3.8)	(4.4)	(5.1)
Selling costs	(3.9)	(2.9)	(2.9)	(3.1)	(3.3)
General & Administrative (G&A)	(11.9)	(14.1)	(13.4)	(14.0)	(13.5)
EBITDA	47.1	34.9	35.3	31.6	42.0
Depreciation & amortisation	(11.3)	(10.3)	(8.0)	(8.0)	(8.0)
Interest	(0.3)	(0.3)	0.0	0.0	0.0
Taxation	(10.5)	(10.4)	(10.4)	(8.2)	(10.1)
Other	33.0	8.0	0.0	0.0	0.0
Net income	59.4	22.2	16.6	15.4	23.9
Average shares outstanding (million)	106.1	111.7	112.1	112.1	112.1
EPS (US\$)	0.56	0.20	0.15	0.13	0.21
Dividend (pence per share)	12.5	12.5	12.5	12.0	13.0

Abridged balance sheet Y/E	2014	2015	2016f	2017f	2018f
Cash & equivalents	46.1	42.0	29.5	24.9	30.1
Fixed assets	162.7	85.3	92.9	92.9	92.9
Total assets	216.2	133.1	126.9	125.3	130.5
Current liabilities	4.7	6.3	5.5	5.5	5.5
Long-term debt	0.0	0.0	0.0	0.0	0.0
Other long-term liabilities	23.7	12.2	12.0	12.0	12.0
Total liabilities	28.4	18.8	17.5	17.5	17.8
Shareholders' equity	187.9	114.2	109.4	107.8	113.0

Cash flow summary	2014	2015	2016f	2017f	2018f
Cash from operations	30.5	23.5	22.4	20.9	29.4
Cash from investing activities	(10.8)	(7.3)	(17.2)	(3.0)	(3.0)
Cash from financing activities	(15.7)	(20.6)	(20.3)	19.5	(21.1)

Net cash at end	46.2	42.0	26.5	24.9	30.1
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Profitability	2014	2015	2016f	2017f	2018f
EBITDA margin (%)	61.5	52.0	52.4	47.0	53.9

Note that financial tables above are summaries and totals may not always agree

Source: Central Asia Metals & Marten & Co

Previous research publications

Further information is available at the company's website:

www.centralasiametals.com

Readers interested in further information about CAML may wish to read QuotedData's initiation note of February 2016. [Please click here](#). The contents are reproduced below.

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