The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Polyus On Track for New Mine Despite H1 Loss

By The Moscow Times

September 01, 2013

Polyus Gold is on track to begin producing bullion at its Natalka mine next year and has increased spending in the expectation that it would be profitable despite a sharp drop in prices that dragged the company to a first-half loss.

Russia's largest gold miner took a $469 million write-down on the value of its assets, becoming the latest major mining company to take an impairment hit after the sharpest drop in gold prices in a generation.

Four top Russian gold miners have written off a combined $1.6 billion this week, pushing them into the red, after a 16 percent fall in gold prices since the start of the year.

Polyus said Friday that Natalka in the Far East — a challenging and costly project to develop one of the world's largest untapped deposits — was on track to start full operations next summer.

It previously said it planned to spend up to $1.2 billion this year on construction of the mine. Polyus held $1.2 billion in cash and cash equivalent at the end of June, prompting some questions over its spending plans.

"Polyus keeps going with Natalka because the project has already passed the point of no return," said an analyst who asked not to be named. "It's cheaper to finish this project than to lose all investments which have already been made."

He said he still expected Natalka to make money for Polyus with a gold price of $1,200 per ounce.

But some questioned the company's decision to press ahead with the project.

"Growth is important, but not at times like this," BofA Merrill Lynch said in a research note. "We believe that in times of high volatility in underlying commodity prices, investors prefer free cash flows and dividends to growth."

A Polyus spokesman was not available for comment.

In the first six months of 2013, the company spent $700 million across its operations, more than double its spending in the same period last year.

Gold currently trades about $1,395 an ounce, compared with a record peak of more than $1,920 two years ago. Polyus and its rival, Nordgold, used gold prices of $1,350 and $1,345, respectively, to calculate impairments on the value of their assets. For the full year, gold is expected to average $1,410.75 an ounce, a poll showed in July.

Polyus fell to a first-half loss from continuing operations of $173 million after taking a $469 million impairment charge. Revenue fell 17 percent to $1 billion.

Excluding the noncash charges, the miner's first-half profit from continuing operations totaled $255 million, above a consensus analyst forecast of $235 million.

Polyus' London-listed shares were flat Friday and were up 6.5 percent over the last 12 months, holding up better than its Russian peers, due partly to the stock's scarce liquidity.

Nordgold and rival Petropavlovsk have lost about two-thirds of their value in the same period. Polymetal, Russia's largest silver miner, has lost a quarter.

Original url:
https://www.themoscowtimes.com/2013/09/01/polyus-on-track-for-new-mine-despite-h1-loss-a27246