

3 August 2021

## Corp

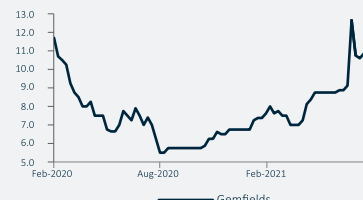
<b>Ticker</b>	<b>GEM:AIM</b>
<b>Mining</b>	
Shares in issue (m)	1,168.8
Next results	H1 Sept

<b>Price</b>	<b>10.9p</b>
Target price	19.0p
Upside	75%

<b>Market cap</b>	<b>£126.8m</b>
Net debt/(cash)	£9.1m
Other EV adjustments	£0.0m
Enterprise value	£135.9m

<b>What's changed?</b>	<b>From</b>	<b>To</b>
Adjusted EPS	-	0.9
Target price	-	19.0

### Share price performance



%	1M	3M	12M
Actual	18.9	29.6	55.0

### Company description

The company mines for rubies in Mozambique and emeralds in Zambia.

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## GEMFIELDS\*

### Strong long-term cashflows

Gemfields' balance sheet is in excellent health despite the pandemic. With FY21 auction revenues of US\$90m already booked, Gemfields is planning three auctions in the second half. Demand and prices remain strong (April's auctions achieved record average ruby prices) although the COVID situation in India, Thailand and Singapore could result in auction disruption. We assume the commercial quality emerald auction goes ahead during 3Q and that two higher-value auctions planned for 4Q are smaller (volume wise) than is usual.

Mining operations have now restarted so costs will rise YoY, although remain lower than FY19. We forecast EBITDA in FY21 of US\$53m, US\$68m in FY22 and US\$78m in FY23, as normal trading resumes in line with a broad global recovery.

The post-recovery investment case is based on long mine lives and the opportunity to grow production and sales, in particular on the ruby side. We anticipate revenue growth from FY23, driven by increased production through a second wash plant at Montepuez. We re-initiate with a 19p target.

- **Share price and volumes:** Gemfields listed in 1Q20 at 12p, hit a low of 5.5p in August, and has since recovered to 10.9p. Despite GEM's limited liquidity the shares trade in line with sentiment. We view 19p as a reasonable 12-month target.
- **Normal sales in FY23:** Our estimates assume revenues of US\$161m in FY21 (to Dec), US\$191m in FY22 (12% below FY19A) and US\$203m in FY23 (6% below FY19A).
- **Strong FY19 predictive of future:** Gemfields is currently trading on EV/EBITDA multiples of 3.9x for FY21E, 3.1x for FY22E, 2.7x for FY23E and 3.0x based on FY19A.
- **Balance sheet:** Before Gemfields' 1Q20 AIM listing, it divested the Jupiter Mines stake, raising \$95m. This and general cost cutting ensured a very strong balance sheet before the start of the pandemic. Sales of US\$90m in April 2021 repaired some of 2020's damage.
- **Country risks:** Gemfields' greatest risks are probably at the local level. Although tax is relatively high in Zambia, for many years it has been a stable democracy with good overall infrastructure. However, terrorists are active in the north of Mozambique, approximately 250 miles/km from the Montepuez ruby mine. We have applied a 20% risk factor to our Montepuez NAV which we will unwind should the situation improve.
- **Valuation:** Our model is based on the independent mining consultant SRK's Kagem and Montepuez mine schedules – although we use more conservative cost, sales volumes and price assumptions. We calculate a £222m risked-valuation and 19p target price.

Key estimates		2018A	2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
Revenue	\$m	206.1	216.2	34.6	161.0	190.6
Adj EBITDA	\$m	54.2	69.6	-33.2	53.1	68.3
Adj EBIT	\$m	23.5	34.8	-54.2	25.8	43.5
Adj PBT	\$m	14.7	30.3	-60.0	22.5	40.7
Adj EPS	c	-3.2	1.1	-6.3	0.9	1.4
DPS	c	0.0	0.0	0.0	0.0	0.0

Key valuation metrics		2018A	2019A	2020A	2021E	2022E
EV/EBIT (adj)	x	8.0	5.4	-3.5	7.3	4.3
P/E (adj)	x	-4.7	13.3	-2.4	16.3	10.5
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%
Free cash yield	%	-17.3%	1.4%	-18.1%	-4.9%	27.8%
Pre-tax ROCE	%	3.9%	5.5%	-10.0%	4.7%	7.6%

## Strong long-term cashflows

Income statement		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Sales	\$m	216.2	34.6	161.0	190.6
Gross profit	\$m	91.6	-24.5	70.2	96.1
EBITDA (adjusted)	\$m	69.6	-33.2	53.1	68.3
<b>EBIT (adjusted)</b>	<b>\$m</b>	<b>34.8</b>	<b>-54.2</b>	<b>25.8</b>	<b>43.5</b>
Associates/other	\$m	0.0	0.0	0.0	0.0
Net interest	\$m	-4.5	-5.8	-3.3	-2.8
<b>PBT (adjusted)</b>	<b>\$m</b>	<b>30.3</b>	<b>-60.0</b>	<b>22.5</b>	<b>40.7</b>
Total adjustments	\$m	37.1	-39.2	0.0	0.0
PBT (stated)	\$m	67.4	-99.2	22.5	40.7
Tax charge	\$m	-28.2	6.0	-5.0	-14.7
Minorities/Disc ops	\$m	10.8	-7.9	6.3	8.6
Reported earnings	\$m	28.4	-85.3	11.3	17.4
<b>Adjusted earnings</b>	<b>\$m</b>	<b>13.3</b>	<b>-73.8</b>	<b>11.3</b>	<b>17.4</b>
Shares in issue (year end)	m	1,171.0	1,168.8	1,168.8	1,168.8
EPS (stated)	c	2.2	-7.3	1.0	1.5
<b>EPS (adjusted, fully diluted)</b>	<b>c</b>	<b>1.1</b>	<b>-6.3</b>	<b>0.9</b>	<b>1.4</b>
<b>DPS</b>	<b>c</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Growth analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Sales growth	%	4.9%	-84.0%	365.7%	18.4%
EBITDA growth	%	28.5%	-147.7%	259.9%	28.7%
EBIT growth	%	47.7%	-255.9%	147.7%	68.4%
PBT growth	%	106.2%	-298.0%	137.5%	80.8%
EPS growth	%	135.2%	-656.7%	114.7%	54.2%
DPS growth	%	n/m	n/m	n/m	n/m

Profitability analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Gross margin	%	42.3%	-70.9%	43.6%	50.4%
EBITDA margin	%	32.2%	-96.0%	33.0%	35.8%
EBIT margin	%	16.1%	-156.8%	16.1%	22.8%
PBT margin	%	14.0%	-173.6%	14.0%	21.4%
Net margin	%	6.1%	-213.4%	7.0%	9.1%

Cash flow		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
EBITDA	\$m	67.4	-33.2	53.1	68.3
Net change in working capital	\$m	-25.3	31.3	-45.4	11.9
Other operating items	\$m	4.3	-3.3	0.0	0.0
<b>Cash flow from op. activities</b>	<b>\$m</b>	<b>46.4</b>	<b>-5.2</b>	<b>7.7</b>	<b>80.2</b>
Cash interest	\$m	-3.3	-3.0	-0.5	-0.3
Cash tax	\$m	-9.7	-15.0	-5.0	-14.7
Capex	\$m	-30.8	-8.6	-10.9	-16.0
Other items	\$m				
<b>Free cash flow</b>	<b>\$m</b>	<b>2.5</b>	<b>-31.8</b>	<b>-8.6</b>	<b>49.1</b>
Acquisitions / disposals	\$m	35.2	0.0	0.0	0.0
Dividends	\$m	0.0	0.0	0.0	0.0
Shares issued	\$m	-14.4	-0.2	0.0	0.0
Other	\$m	-7.8	-6.0	0.0	-0.6
<b>Net change in cash flow</b>	<b>\$m</b>	<b>15.6</b>	<b>-38.0</b>	<b>-8.6</b>	<b>48.5</b>
Opening net cash (debt)	\$m	9.8	25.4	-12.6	-24.1
<b>Closing net cash (debt)</b>	<b>\$m</b>	<b>25.4</b>	<b>-12.6</b>	<b>-24.1</b>	<b>22.0</b>

Cash flow analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Cash conv'n (op cash / EBITDA)	%	68.8%	n/m	14.4%	117.4%
Cash conv'n (FCF / EBITDA)	%	3.8%	96.0%	-16.2%	71.9%
U/lying FCF (capex = depn)	\$m	-1.4	-44.2	-25.0	40.4
Cash quality (u/l FCF / adj earn)	%	-10.8%	59.9%	-221.8%	232.5%
Investment rate (capex / depn)	x	0.9	0.4	0.4	0.6
Interest cash cover	x	14.1	n/a	16.8	233.2
Dividend cash cover	x	n/m	n/a	n/a	n/m

Working capital analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Net working capital / sales	%	78.0%	385.8%	111.0%	87.5%
Net working capital / sales	days	285	1,408	405	320
Inventory (days)	days	187	1,244	256	222
Receivables (days)	days	148	392	182	130
Payables (days)	days	50	228	33	32

Balance sheet		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	376.9	362.7	345.4	335.6
Goodwill & other intangibles	\$m	55.2	51.5	52.5	53.5
Other non current assets	\$m	75.3	43.7	43.7	43.7
Net working capital	\$m	168.7	133.3	178.7	166.8
Other assets	\$m	0.0	0.0	0.0	0.0
Other liabilities	\$m	-122.5	-95.6	-95.6	-95.6
Gross cash & cash equivs	\$m	78.2	43.9	30.8	64.9
<b>Capital employed</b>	<b>\$m</b>	<b>631.8</b>	<b>539.5</b>	<b>555.5</b>	<b>568.9</b>
Gross debt	\$m	52.8	56.5	54.9	42.9
Net pension liability	\$m	0.0	0.0	0.0	0.0
Shareholders equity	\$m	494.3	412.6	423.8	441.2
Minorities	\$m	84.7	70.4	76.8	84.8
<b>Capital employed</b>	<b>\$m</b>	<b>631.8</b>	<b>539.5</b>	<b>555.5</b>	<b>568.9</b>

Leverage analysis		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Net debt / equity	%	net cash	3.1%	5.7%	net cash
Net debt / EBITDA	x	net cash	n/a	0.5	net cash
Liabilities / capital employed	%	8.4%	10.5%	9.9%	7.5%

Capital efficiency & intrinsic value		2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec
Adjusted return on equity	%	2.7%	-17.9%	2.7%	3.9%
RoCE (EBIT basis, pre-tax)	%	5.5%	-10.0%	4.7%	7.6%
RoCE (u/lying FCF basis)	%	-0.2%	-8.2%	-4.5%	7.1%
NAV per share	c	42.2	35.3	36.3	37.7
NTA per share	c	37.5	30.9	31.8	33.2



## Bull

- **Long mine life at both assets:** 20 years at Kagem and 12+ years at Montepuez. Note that the Montepuez life is based on current delineated reserves and expected to increase to nearer 20 years. We model 15 years.
- **Premium products in a growing market:** Gemfields is the only large-scale ruby and emerald producer, producing a consistent supply of high-quality and well-sorted material. Both the emerald and ruby markets have growth potential, especially the ruby market which in our view has the potential to grow up to 50%, driven by Gemfields' second wash plant at Montepuez.
- **Stable pricing of coloured gems:** Unlike diamonds (a larger and sometimes over-supplied market), coloured gem prices have been stable during Gemfields' 11-year history.
- **Established brand:** Gemfields is the only significant coloured gemstone producer. There are several juniors (e.g. Fura Gems) looking to emulate Gemfields but with a very different (earlier stage or smaller) asset base.
- **High margin:** Both mines are high margin, in particular the Montepuez ruby operation which requires no blasting or the hand cobbing which is needed at Kagem.
- **Strong balance sheet:** We estimate FY21E net debt of US\$24.1m alongside trade receivables of \$50.1m (\$37.8m from Montepuez's and \$15.5m from Kagem's 4Q auctions). This equates to an effective year-end net cash position of \$29m.



## Bear

- **Mozambique terrorism:** This remains a problem. Attacks by Islamic terrorists are focused on settlements approximately 250km north of Montepuez.
- **COVID uncertainty – India the main concern:** The COVID situation has improved in recent weeks, but remains very serious. COVID could also result in mine shutdowns, impacting production and the auction schedule.
- **Mining risks:** All mining companies face operational risks associated with mining – safety, problems with the local community, reserve discrepancies, weather etc.



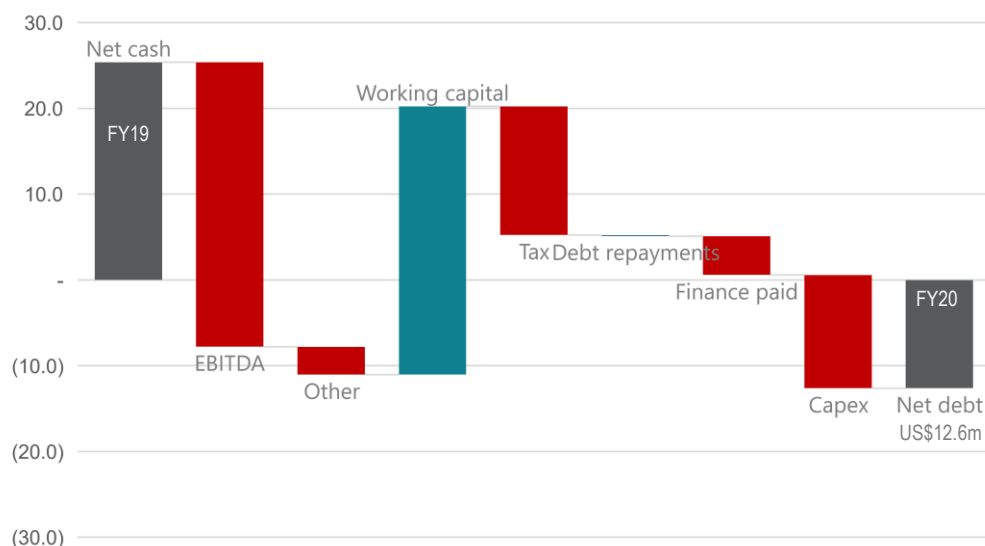
## Neutral

- **Excellent margin balanced by local ownership:** Both mines have local ownership, a JV partner in Mozambique for Montepuez and the government in Zambia for Kagem. The partners provide value through political support and local know-how.
- **Sales growth requires marketing investment:** Gemfields has an excellent opportunity to continue growing the coloured gemstone market. However, this requires a considerable annual marketing investment.
- **One more large capital project:** Most of Gemfields' large capex projects are completed. The US\$35m washplant at Montepuez will probably (dependant on the market and the pandemic) be built during 1H23, or potentially earlier.

## Surviving the pandemic

Gemfields' balance sheet is in excellent health, with net debt of US\$12.6m at the end of 2020. This was achieved through cost savings of circa US\$60m, primarily through reducing costs at the two mines (US\$12m per month reduced to US\$5.5m). There was also a sizeable cash inflow in 1Q20 from auctions held in 4Q19.

Figure 1: FY20A vs FY19A Net debt – US\$m



Source: Gemfields Group, finnCap

## Recovery – already started

In November 2020 and April 2021, Gemfields sold merchandise from inventory using a new format online auction process. These generated revenues of US\$11m in 4Q20 and US\$90m in early 2Q21, demonstrating strong underlying demand despite the pandemic.

The new remote auctions should be useful in the short term. Gemfields is planning one commercial quality (CQ) emerald auction in 3Q21, followed by mixed-quality ruby and higher-quality emerald auctions in 4Q21. These will likely retain the online format, reflecting a world still affected by COVID.

### Forecasts

We estimate FY21 sales of US\$161m rising to US\$181m in FY22 and US\$203m in FY23. FY21E costs will increase YoY now the two mines have restarted, and corporate activities are nearer normal. We expect FY21 total operating costs to be below FY19's costs due to the timing of mine restarts alongside lower marketing expenses. Capital expenditure is also lower, with the main remaining capital project (Montepuez's second wash plant) delayed until 1H23.

Figure 2: Summary forecasts (US\$)

	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	216.2	34.6	161.0	190.6	203.3
Gross profit	91.6	(24.5)	70.2	96.1	105.7
EBITDA Adj	69.6	(33.2)	53.1	68.3	78.0
Net profit	39.1	(93.2)	17.6	26.0	32.2
Cash tax	(9.7)	(15.0)	(5.0)	(14.7)	(16.7)
Capex	(30.8)	(8.6)	(10.9)	(16.0)	(35.0)
Cash	78.2	43.9	30.8	64.9	87.2
<b>Net cash/(debt)</b>	<b>25.4</b>	<b>(12.6)</b>	<b>(24.1)</b>	<b>22.0</b>	<b>46.8</b>
<b>Auction receivables</b>	<b>62.5</b>	<b>13.5</b>	<b>50.9</b>	<b>38.0</b>	<b>36.6</b>

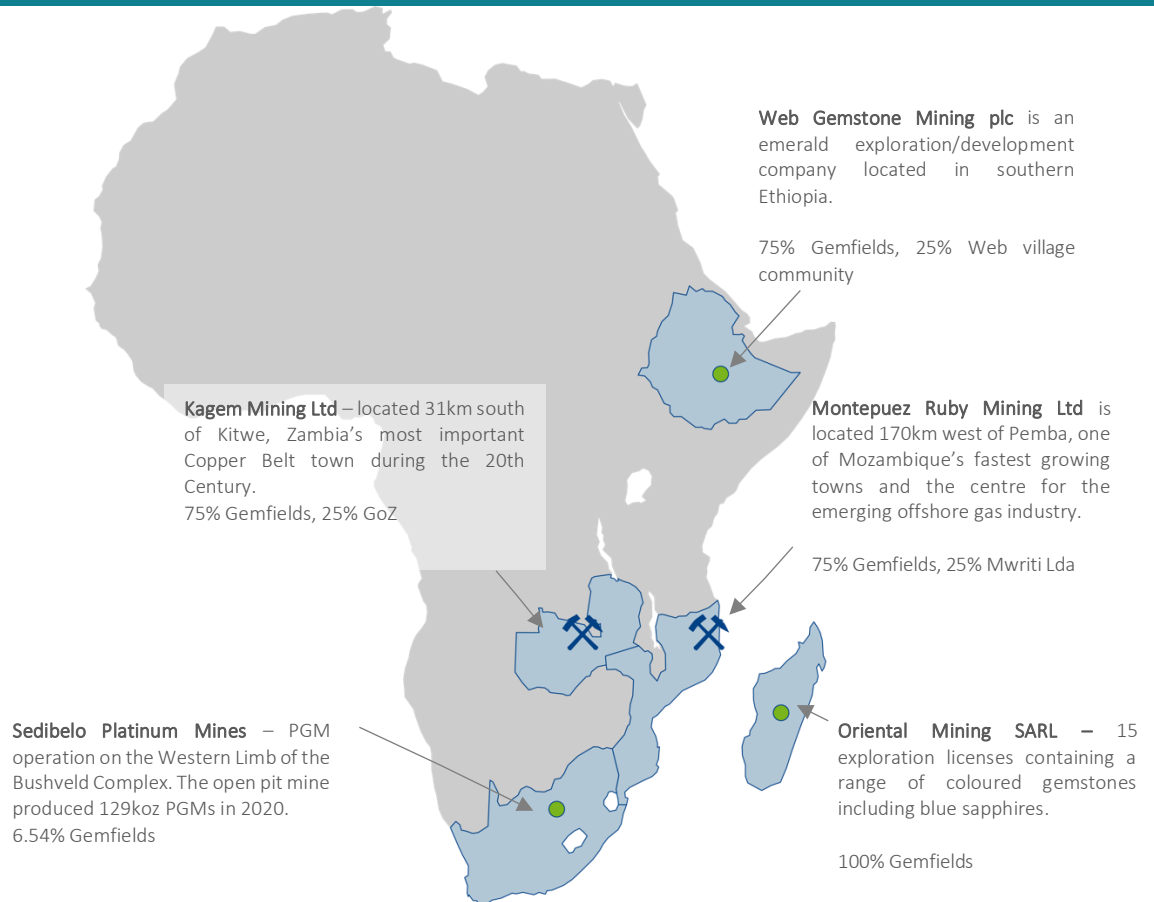
Source: finnCap

Note: due to auctions held in December, we forecast USD51m of receivables at Dec 21

## Location and asset history

Gemfields' assets are located in southern Africa, easily accessible from Johannesburg. Montepuez, the ruby mine, is in Mozambique while the Kagem emerald mine is in Zambia. Kagem is 75%-owned by Gemfields alongside the Zambian government. Montepuez is also 75%-owned by Gemfields with the remaining 25% held by the original owner and vendor, Mwiriiti Limitada.

Figure 3: Asset location



Source: finnCap

## Gemfields history

- 2007** – Kagem (Hagura Mining Ltd) acquired by a Pallinghurst group company
- 2008** – Kagem/Hagura backed into AIM-listed Gemfields (RTO)
- 2009** – First emerald auction held (July, London)
- 2011** – Montepuez acquired
- 2014** – First Montepuez auctions
- 2017** – Gemfields acquired and merged with Pallinghurst Resources Limited and delisted
- 2020** – 14 February, relisted on AIM with a stronger balance sheet
- 2020** – Both mines suspended due to COVID
- 2020** – First online auctions (Q4) - successful proof of concept
- 2021** – Two normal sized online auctions
- 2021** – Mines restarted at the end of 1Q21

## Investment case

### Long mine lives

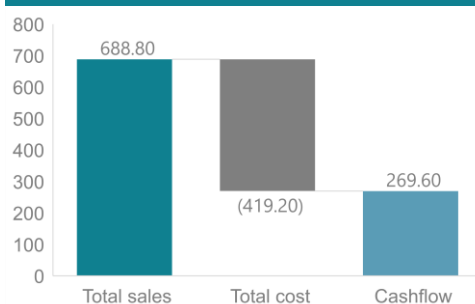
Gemfields is the world's largest coloured gemstone producer. Its ruby and emerald mines are both stable operations with long mine lives ahead:

1. Kagem emerald mine – life of more than 20 years
2. Montepuez ruby mine – life of 12 years<sup>1</sup> minimum

### Strong cashflow history – sales growth over 12 years

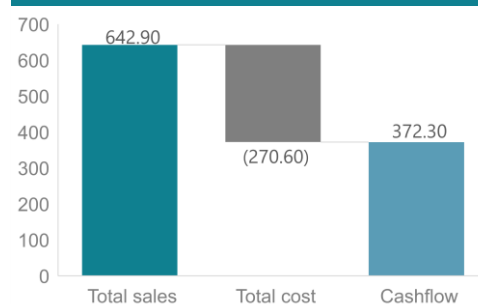
Both assets have a good history of sales growth and cash generation. Over the last 12.5 years, we estimate Kagem has produced sales of \$689m, costs including capex of \$420m and cashflow of \$270m. Over a shorter seven-year period, Montepuez has generated cashflow of \$372m after auction sales of \$643m and opex plus capex of \$271m.

Figure 4: Cashflow: Kagem last 12 years



Source: Gemfields Group, finnCap

Figure 5: Cashflow: Montepuez last 7 years



Source: Gemfields Group, finnCap

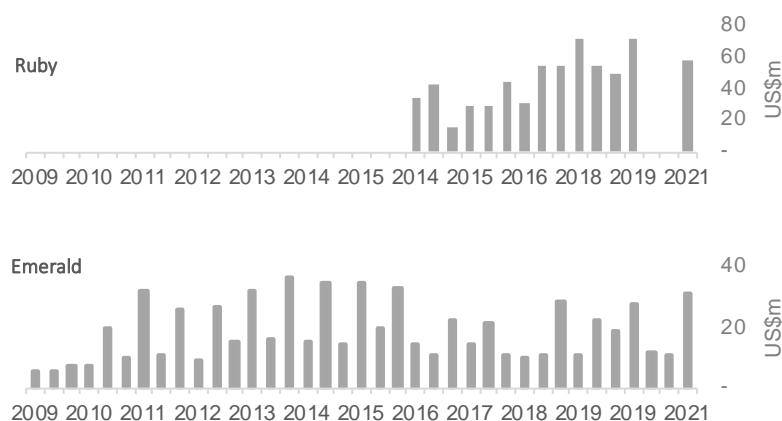
### Future cashflow potential – fewer capital projects

We expect post-recovery cashflows (2023 onwards) to be stronger than the group's historical performance. Past cashflows included large capital projects including Kagem stripping, building the ruby mine (pre-strip, wash plant, sorthouse) and establishing markets.

### Sales growth – driven by rubies

Gemstone sales have increased over the years and reached US\$216m in FY19 with \$121.5m of ruby revenue and \$79m of emerald revenue. We expect revenues to return to these levels in FY24 and to continue to grow at approx. 5% per year (average) and peak at US\$409m in 2035. As discussed below, this growth is driven by ruby production and demand.

Figure 6: Ruby and emerald auction history – US\$m



Source: Gemfields Group, finnCap

<sup>1</sup> Montepuez's 2019 technical report has a 12-year mine life but we expect this to increase to at least 15 years

## Catalysts

### *Global travel and normal auctions*

Gemfields' online auctions are an excellent solution while travel restrictions remain in place. Nonetheless, we believe Gemfields won't enjoy a full sales recovery until global travel and the global economy fully re-opens in its major markets – the US, Europe, India, China and the Middle East.

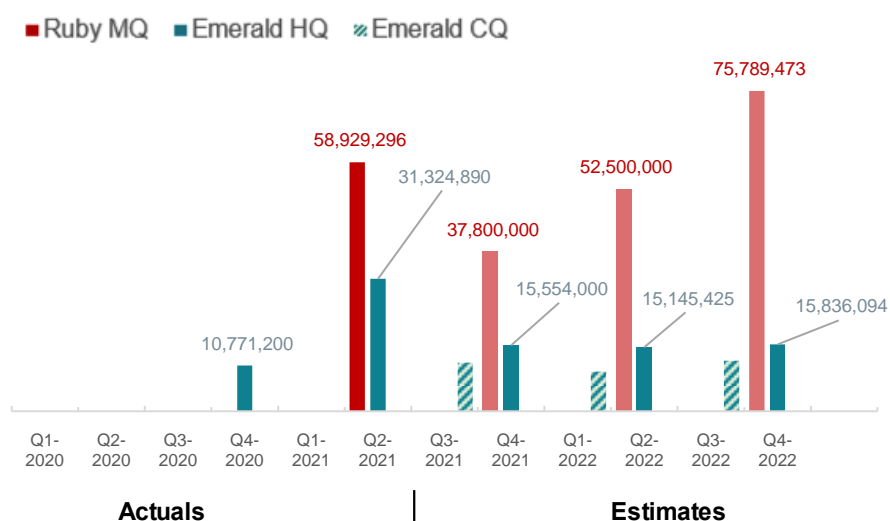
Over the next 12 months, as re-opening is announced by governments worldwide, potentially bit by bit, we expect Gemfields' shares to move towards our 19p target. Subsequent catalysts will include the publication of the dates of the first post-COVID, in person auctions, followed by auction results.

## Short-term outlook

We assume two slightly smaller than usual auctions during 4Q21 – a mixed-quality ruby auction and a high-quality emerald auction. We also assume a commercial quality emerald auction at some point during 3Q21.

We have forecast relatively small-scale auctions to reflect uncertainty, although of course there is a risk that these 4Q21 auctions do not go ahead due to COVID.

Figure 7: Auction – our short-term outlook (US\$)



Source: Gemfields Group, finnCap

## *Is a 2023 return to pre-COVID revenues realistic?*

How the economic recovery plays out over the next 12 to 18 months is hard to predict and will depend on vaccine uptake and the emergence of further COVID-19 variants.

### *Johann Rupert – Richemont's Chairman*

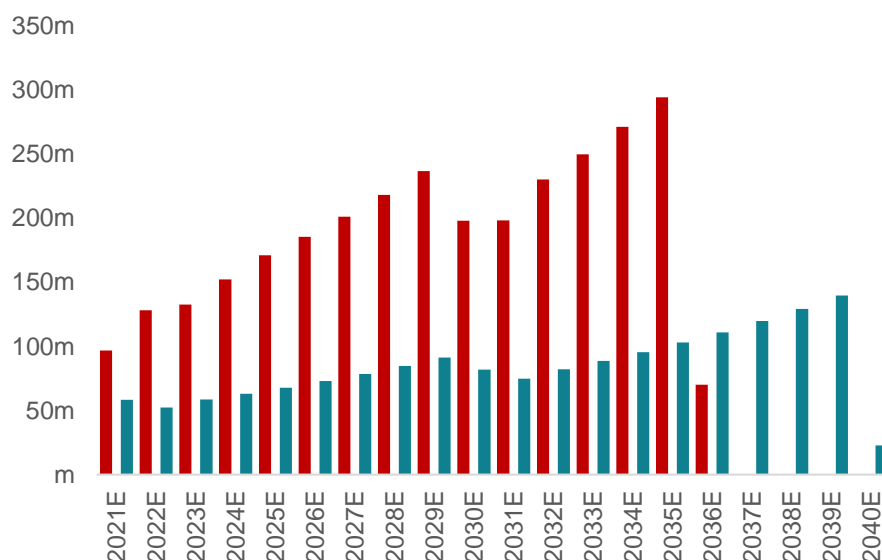
In Richemont's FY21 (y/e March) release, published in May 2021, Johann Rupert stated:

*"Although the pace of vaccination has gathered momentum, volatility and low visibility are likely to prevail until there is herd immunity. There are still concerning Covid-19 developments in parts of the world that could slow down a global recovery, even though underlying demand seems strong with supportive central bank actions, substantial government stimulus packages, and real estate and stock markets at all-time highs."*

## *Valuation driven by long-term cashflow*

Our 19p valuation is based on cashflows after financing and dividends to local partners. The chart below shows the higher revenues but shorter mine life of Montepuez – in red. The difference between the two markets was demonstrated in FY19 when ruby revenues were \$121.5m versus emerald revenues of \$79m.

Figure 8: Ruby and emerald revenues (US\$) – finnCap model



Source: Gemfields Group, finnCap

**Modest borrowing**

At the end of December 2020 Gemfields had net debt of US\$12.6m, down from a net cash position of \$25.4m 12 months before. Borrowing was US\$28m in Zambia (5.5% + US LIBOR) and US\$28.5m in Mozambique.

Since then US\$90m of revenue has been generated from the ruby and emerald online auctions in April 2021. Costs have also increased as mine operations restarted.

Figure 9: Capital structure December 2020 – US\$m

<b>Ordinary Shares</b>	1,168,756,030	
<b>Cash</b>	43,862,000	
<b>Debt</b>	56,505,000	
<b>Net cash/(debt)</b>	(12,643,000)	
<b>Kagem</b>		
		<b>Capacity</b>
Barclays 5 year loan	18,000,000	20,000,000
Barclays credit facility	10,000,000	10,000,000
<b>Montepuez</b>		
Barclays overdraft	14,184,000	15,000,000
BCI overdraft	14,321,000	15,000,000
BCI finance leasing	-	15,000,000

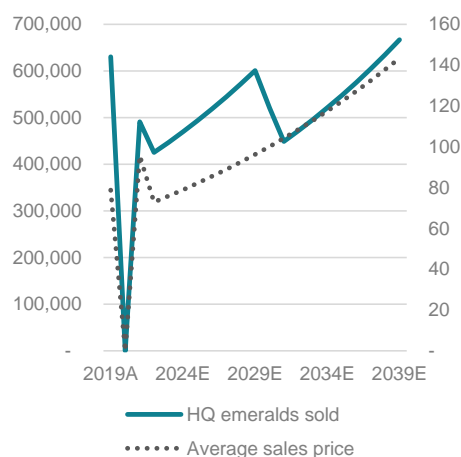
Source: Gemfields Group, finnCap



### Recession in 10 years

To moderate our bullish growth assumption, both our Kagem and Montepuez models include a recessionary period in 2030.

Figure 10: Kagem sales growth



Source: finnCap

Figure 11: Montepuez sales growth



Source: finnCap

### SRK's asset level FCF – US\$3.0b

Independent mining consultant SRK fairly recently (although pre-COVID) produced economic models for both mines. SRK estimates that Montepuez will produce free cashflow of \$1,219m over 15 years and Kagem free cashflow of \$1,844m over 20 years (neither figure includes financing or minority shareholder dividends).

### finnCap asset level FCF – US\$1.3b

Our models include financing cashflows, minority dividends and more conservative pricing and rough gemstone sales/revenue growth expectations. Our EBITDA and FCF numbers are attributable to Gemfields shareholders – i.e. they include Gemfields' management fees<sup>2</sup> and minority dividends.

Figure 12: Model differences

#### finnCap - life of mine

Kagem revenues	US\$m	1,667.5
Kagem EBITDA	US\$m	716.8
Kagem FCF	US\$m	475.0
Montepuez revenues	US\$m	3,033.9
Montepuez EBITDA	US\$m	1,677.0
Montepuez FCF	US\$m	859.5

#### SRK - life of mine

Kagem revenues	US\$m	4,468.0
Kagem EBITDA	US\$m	2,839.0
Kagem FCF	US\$m	1,844.0
Montepuez revenues	US\$m	3,480.8
Montepuez EBITDA	US\$m	2,144.0
Montepuez FCF	US\$m	1,219.5

Source: finnCap

<sup>2</sup> The mines pay Gemfields a management fee of 12.5% of revenues to fund marketing and auction costs

### Coloured stones' popularity and growth prospects

Long term (Kagem has a 20-year mine life; Montepuez >12 years but likely to increase) we expect growth in sales volumes and carat prices achieved in auction.

Although we have not forecast sales growth as fast as that which SRK models (even adjusting for the impact of COVID-19), we are comfortable that going forward jewellery retailers, existing and new Gemfields customers, will commit to emeralds and particularly to rubies in a larger way.

The trend towards coloured stones has been substantially driven by Gemfields' emergence in the market over the last 10 years. Pre-Gemfields, coloured ruby and emerald supply was fragmented and unreliable; there was also little investment in colour gemstone advertising.

Figure 13: Knight Frank's luxury goods index



Gemfields and Knight Frank collaborated on Knight Frank's 2019 Luxury Investment Index. Andrew Shirley, KF's head of luxury research:

*"Coloured gemstones continue to outperform the wider jewellery market. At Bonhams' London sale at the end of April, several lots blew away their estimates. The top performer was a 17.43-carat Kashmir sapphire ring, formerly owned by a European noble family, that fetched £723,063, far exceeding its £300,000 to £400,000 guide price".*

Source: Gemfields Group, finnCap

### Emulating diamond's success story

The success of the diamond market since the mid-20th century points to the potential of the coloured gemstone market:

1. The diamond market grew through sustained marketing and production growth, mostly funded by De Beers during the 20th century.
2. Future coloured gemstone demand will also be driven by advertising spend and production growth. Demand is potentially many times larger than current levels.
3. Although rubies and emeralds have different aesthetic qualities to diamonds, like diamonds, they have historical and cultural relevance in many countries.

### Country risks

#### Zambian tax – normalised in December 2019

One of the risks that Gemfields faces is Mozambican and Zambian country risk – a basket of risks which includes potential adverse political change, logistical challenges, legal and security issues, and fiscal changes. In Zambia, Gemfields experienced the latter when the export duty on gemstones unexpectedly increased to 15% from January 2019.

However, as of January 2020, the Zambian tax authorities suspended the 15% export duty on precious gemstones. This directive was published in December 2019 in a Supplement to the Republic of Zambia Government Gazette.

#### Mozambique security

- In Mozambique, terrorists are active in the north of the country, approximately 250 miles from the Montepuez ruby mine. We have applied a 20% risk factor to our Montepuez NAV which we will unwind as the situation improves.

**Summary**

We regard Gemfields as a high-return investment opportunity with an acceptable level of risk. Its strong balance sheet and available banking facilities should ensure that it rides out the last months of COVID-19 without requiring an equity capital raise or ending up overly geared.

We are concerned that the latest wave of COVID-19 in India and elsewhere causes prolonged travel restrictions and auction delays. This could impact our FY21 and FY22 estimates but will have a modest negative affect on our 19p valuation.

Conversely, should the global economy recover more quickly, both our FY21 and FY22 estimates would likely require upgrading.

## Valuation

Our valuation is based on independent mining schedules for the two mines and the balance sheet value for Faberge and Sedibelo. We also include -ve £165m to account for corporate and Faberge G&A costs.

Mine-level SG&A and mine management fees are paid for by the mines and accounted for in our mine-level DCF models. Consequently, our -ve G&A value is based on Gemfields' and Faberge's corporate G&A costs only.

Figure 14: Sum of the parts

	US\$	£
Montepuez NPV	349,141,460	249,386,757
Risk factor (discount)	20%	20%
Montepuez NAV	279,313,168	199,509,406
Kagem NPV	200,006,391	142,861,708
Faberge NAV	33,400,000	23,857,143
Sedibelo	29,600,000	21,142,857
G&A	(231,652,048)	(165,465,748)
<b>TOTAL NAV</b>	<b>310,667,511</b>	<b>221,905,365</b>
Shares in issue (m)		1,168.8
Share price target (p)		19

Source: Gemfields Group, finnCap

## Forecasting

### Emerald auction history

We consider past performance and management guidance for our forecasts. For emeralds, the best and second-best years by revenues were 2014 with US\$87m and 2019 with US\$79m.

*Emerald auctions started 2009 (37 held)* – The first Kagem emerald auctions had large quantities of carats on offer and achieved low average carat prices. Over time, the goods on offer changed as Gemfields and its major customers established the optimal quality mix, number of carats and lot sizes.

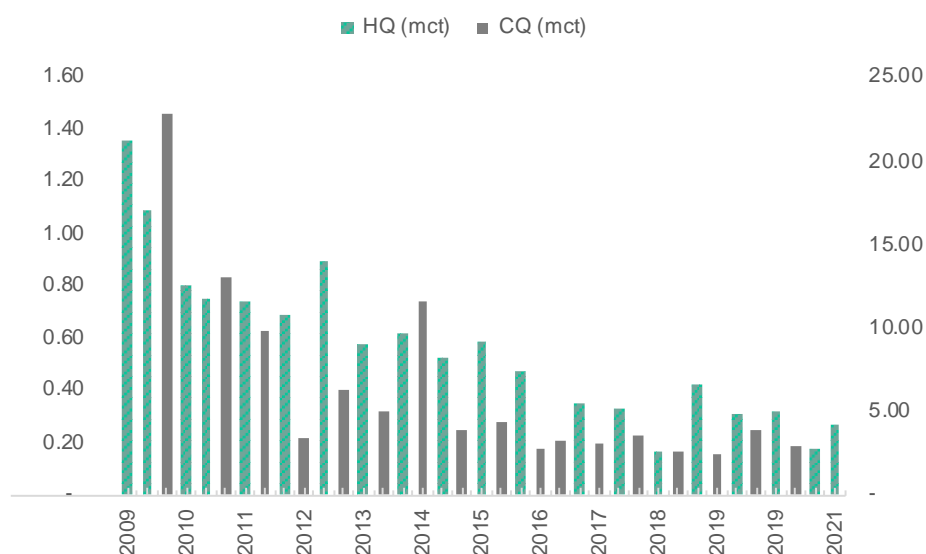
*Annual auction schedule* – In both 2018 and 2019, Gemfields held four auctions, two high quality (HQ) and two commercial quality (CQ). This pattern of four per year is our expectation going forward (2023 onwards).

Figure 15: Emerald sales – US\$m



Source: Gemfields Group, finnCap

Figure 16: Emeralds sold – carats

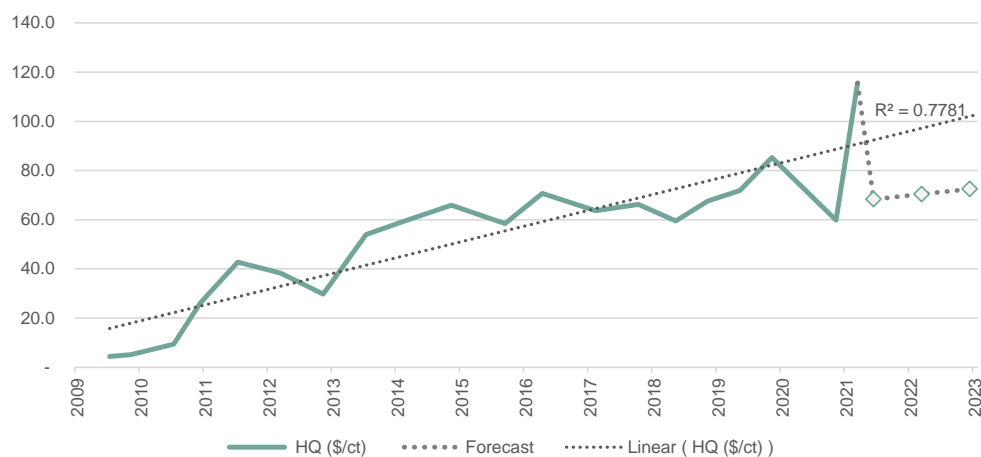


Source: Gemfields Group, finnCap

### Emerald price history

Kagem emerald prices have grown steadily since the first auction in 2009. Volumes of carats sold has stabilised at 600-700k HQ carats and 6 million CQ carats. The charts below show the trend in emerald pricing and our short-term pricing forecasts.

Figure 17: HQ emerald carat price history – US\$/ct



Source: Gemfields Group, finnCap

Figure 18: CQ emerald carat price history – US\$/ct



Source: Gemfields Group, finnCap

### Ruby auctions history – started 2014 (14 held)

Since 2014, Gemfields has held 14 auctions. Three were of very small quantities of fine rubies, one was low quality/commercial quality and since June 2016 all auctions have been of mixed-quality stones. As with emeralds, Gemfields adapted the auction offering to satisfy customer demand and be sympathetic to Montepuez's production mix.

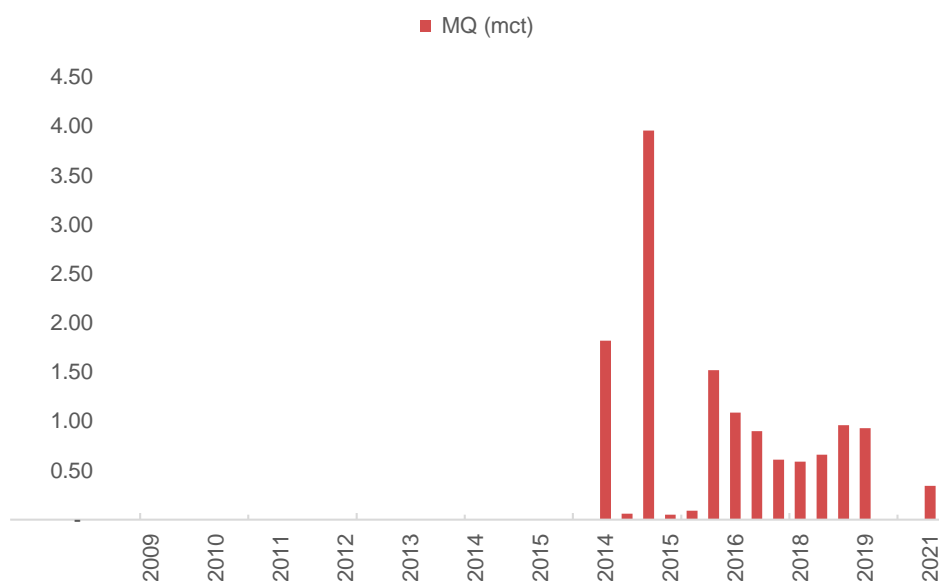
Figure 19: Ruby auctions – US\$ revenue



Source: Gemfields Group, finnCap

**Annual auction schedule** – Gemfields holds two mixed quality (MQ) ruby auctions per year but plans to introduce commercial quality auctions once the second wash plant is complete. We forecast commercial quality ruby auctions from 2023 onwards.

Figure 20: Ruby auctions – carats sold

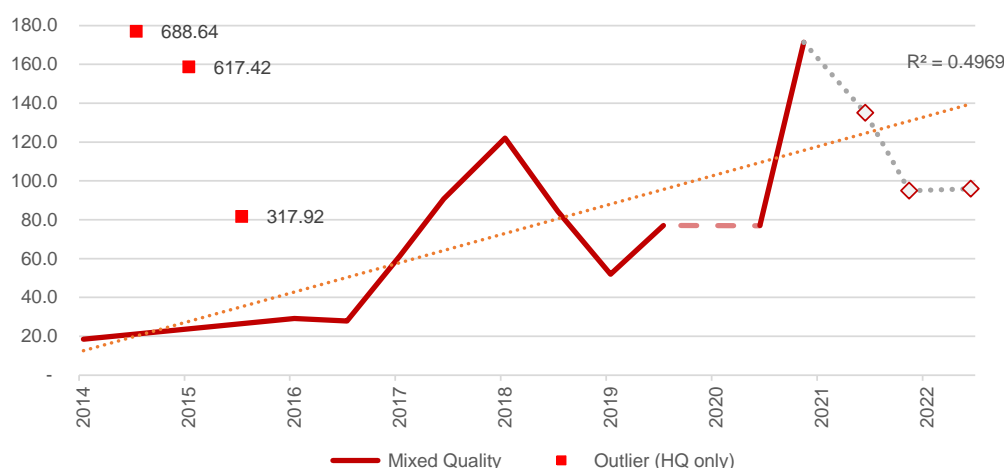


Source: Gemfields Group, finnCap

### Ruby price history

Ruby prices have also increased since the first auction in 2014. In the chart below, we have kept separate those high-quality-only auctions which achieved very high average per carat prices. The charts also show our short-term pricing forecasts.

Figure 21: MQ ruby price history – US\$/ct



Source: Gemfields Group, finnCap

### Forecasting

*We assume revenues return to near FY19 levels in FY23, although this could happen as soon as FY22*

Forecasting Gemfields' sales is less straightforward than making estimates for a metal miner. Gemstone production volumes  $\neq$  sales volumes and price is formed via a multi-day closed auction process rather than a spot or term price. The quality mix of the merchandise also inevitably varies from auction to auction.

This means that depending on auction results and an analyst's modelling approach, financial forecasts may need to be adjusted during the year more than is usual for metal miners.

That said, there are clear patterns and trends which guide our forecasts:

1. Average carat prices for rubies and emeralds have increased over time
2. Total number of carats sold is relatively stable year on year for emeralds
3. Ruby carats sold has been increasing in recent years

### Our sales forecasts

*MQ rubies – our model sees annual sales volumes peak at 1.8m carats per year.*

We have modelled long-term growth in sales volumes and per carat prices. We are led by Gemfields' success over the past 11-12 years in growing the ruby and emerald markets (see above for historical auction and price history).

*HQ emeralds – our model sees annual sales volumes peak at 0.7m carats per year*

We are also guided by Gemfields management's view of the market. It believes demand is significantly controlled by supply, e.g. if Montepuez produces more stones (across the quality range) the marketing department would successfully sell the merchandise. This belief underpins the strategic decision to build a second wash plant and Montepuez. The new plant will produce both mixed quality and commercial quality products.

### Forecasts – FY23 onwards:

For Kagem's high-quality emeralds, we have modelled sales volumes increasing by 5% YoY but that volumes peak at 0.7m carats per year (*average annual HQ sales volumes from 2017-19 were 0.63m carats*). We regard our HQ emerald sales volume forecasts (in carats) as conservative, but our pricing as relatively bullish.

For Montepuez mixed-quality rubies, we have modelled sales volumes increasing by 5% YoY and that mixed quality sales volumes peak at 1.8m carats per year (*average annual MQ sales volumes from 2017-19 were 1.6m carats*). We regard our MQ ruby sales volume forecasts (in carats) as conservative, but our pricing relatively bullish.

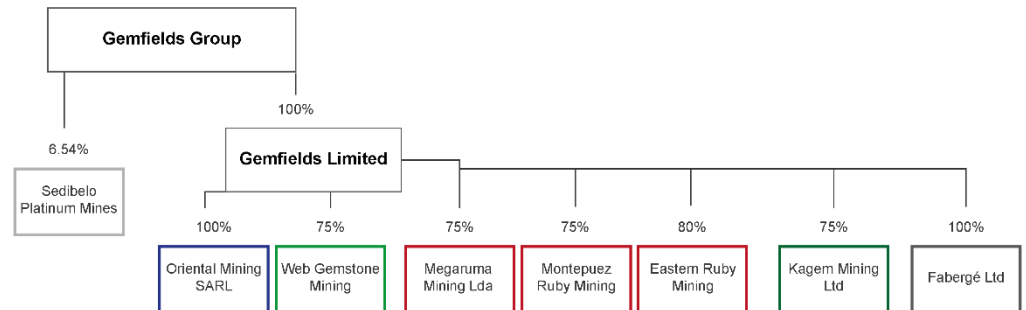
For Montepuez we also model the development of a new commercial quality ruby market. This is expected to be larger than the equivalent emerald market, mainly due to widespread demand for red gem jewellery in many parts of Asia.



## Corporate and capital structure

Gemfields' main assets are Montepuez, Kagem and Fabergé. The Sedibelo investment is on the balance sheet at \$29.6m; Fabergé's inventory is valued at \$33.4m.

Figure 22: Corporate structure



Source: Gemfields Group, finnCap

## Montepuez Ruby Mining (MRM)

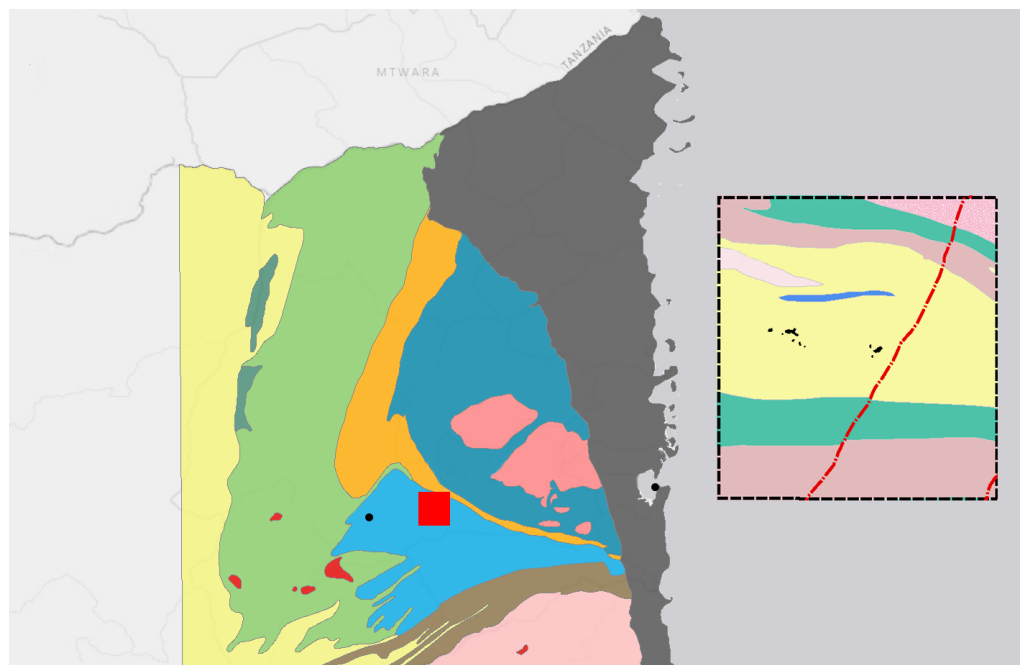
Montepuez is located in Cabo Delgado. Montepuez Ruby Mining Lda has a 350km<sup>2</sup> mining licence, valid until 2036. The nearest town is Montepuez, after which the local geology and ruby deposit are named.

There is Montepuez the town, a geological formation called the Montepuez Complex (below in pale blue), and the Montepuez ruby deposit.

The Montepuez deposit consists of:

1. Primary amphibolite – where ruby crystals are found in the rock in which they formed; and
2. Secondary gravels – where ancient rivers eroded the amphibolite and deposited rubies in layers of gravel. These secondary deposits are analogous with the largely mined-out diamond gravels of South Africa or Sierra Leone.

Figure 23: CQ emerald carat price history



Source: Gemfields Group, finnCap

### Quality variation and grade

The grade and quality of rubies varies across the deposit. In areas of primary mineralisation, the grade is generally very high but the quality low. In secondary (gravels), the grades are much lower but the quality higher.

Of course, there is variability within this generalisation; for example, secondary gravels very close to or overlying primary mineralisation tends to be high grade but lower quality. Also, amongst the low-grade/high-value secondary deposits, the Mugloto area produces more of the highest-quality rubies than the Glass areas.

### Exploration, mine scheduling and mine life

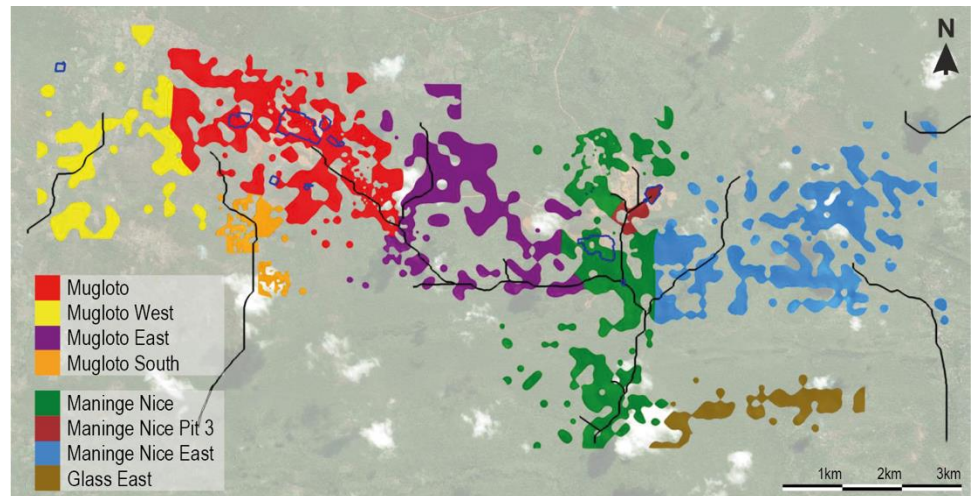
Gemfields has drilled 3,385 auger and diamond holes totalling 42,377m. It has also carried out exploration pitting, airborne geophysics, Terravision Radar, a magnetic survey and satellite imagery.

Figure 24: Resource map

The Mugloto area to the west contains the highest quality rubies.

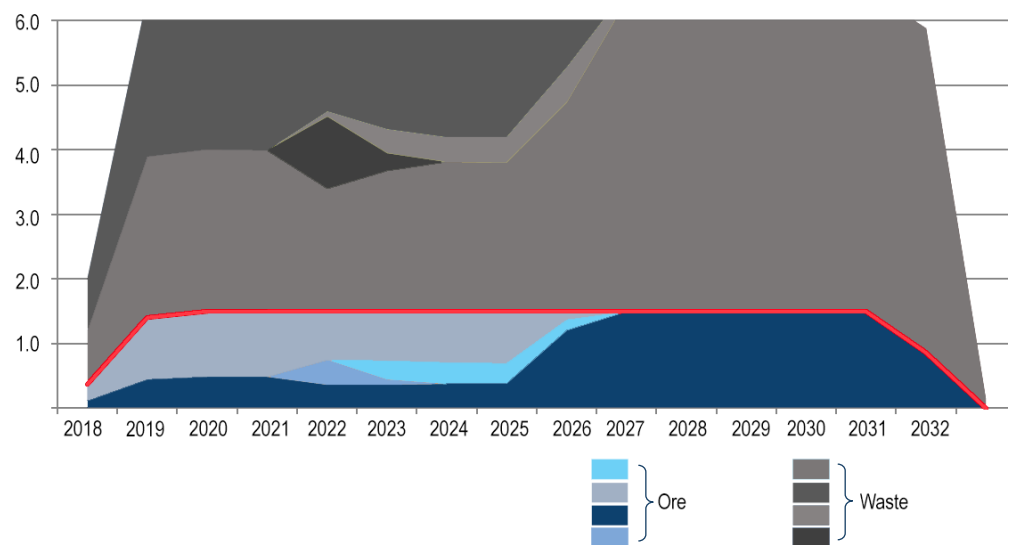
Maninge Nice Pit 3 is one of the primary deposits where grades are extremely high, but quality is lower on average. This will be the source of the CQ rubies.

The new wash plant will give MRM capacity to continue mining Mugloto and add production from Maninge Nice.



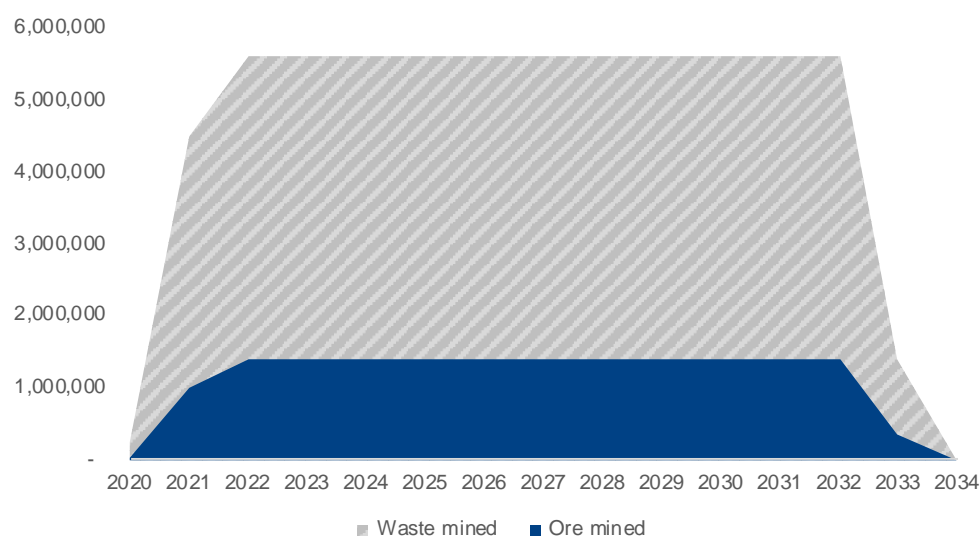
Source: Gemfields Group, finnCap

Figure 25: SRK mining schedule



Source: Gemfields Group, finnCap

Figure 26: finnCap Montepuez physicals (tonnes)



Source: Gemfields Group, finnCap

### Montepuez – high-margin gravels

Gemfields' Montepuez ruby deposit includes large secondary deposits comparable to alluvial diamond deposits. Although relatively low grade the stones are high value and the mining cost is very low. There is also a relatively low waste to ore ratio. Indeed, the Montepuez deposit has one of the ideal high-margin mining scenarios:

1. Low capex
2. Low exploration and development costs
3. Low operating costs:
  - a. Mining – free digging, low strip ratio
  - b. Processing – no crushing or grinding or reagents

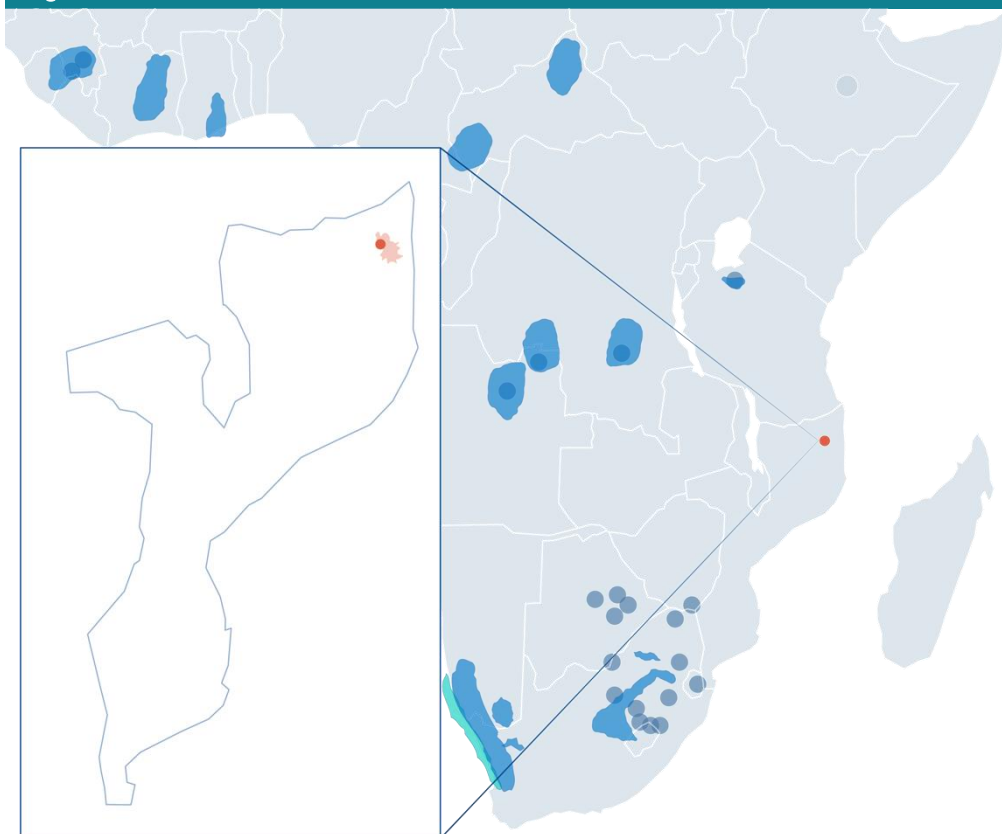
This is relevant because high-margin, low-capex mining situations such as this are rare. The best comparison is the African continent's alluvial diamond deposits which were similarly highly productive and profitable when first discovered.

### Montepuez gravels – comparison with diamond fields

The main alluvial diamond deposits are in South Africa, Namibia, Zimbabwe, Angola, DRC, Cote d'Ivoire, Sierra Leone and Guinea. These were discovered and initially exploited by European settlers in the late 19th century and the 20th century.

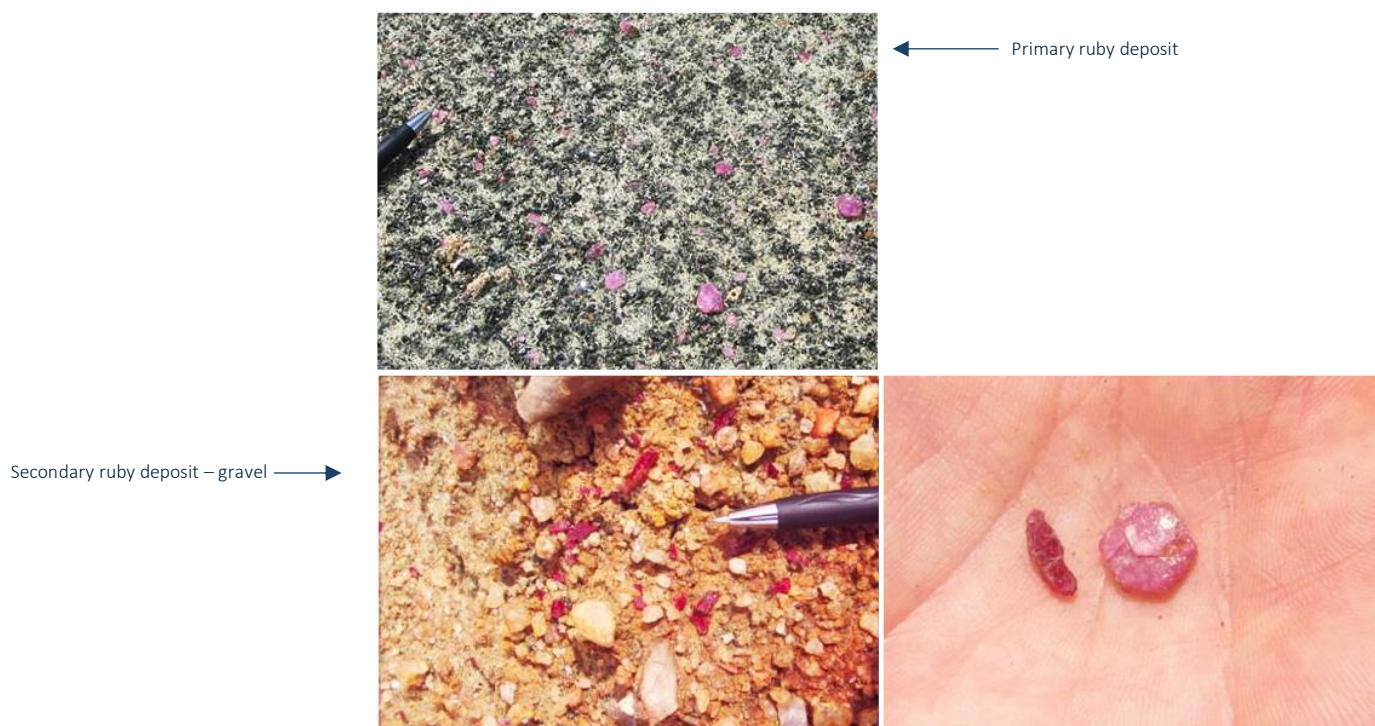
Alluvial diamonds were deposited by meandering rivers from the erosion of kimberlites (the primary deposit). Alluvial mining in Africa has produced many hundreds of millions of carats but the gravels are mostly depleted. The main difference between Montepuez and alluvial diamond fields is the latter are more widespread (not just across Africa).

Figure 27: Main diamond fields and kimberlites



Source: Gemfields Group, finnCap

Figure 28: Montepuez deposit



Source: Gemfields Group, finnCap

### Commercial quality ruby market

Gemfields currently holds mixed-quality auctions and does not offer lots of lower-quality or commercial-quality rubies, which it could produce easily at Montepuez.

Gemfields believes that there is demand for large volumes of commercial quality rubies which could generate sales of up to US\$10m per year, potentially more. This CQ material is in high demand from the manufacturing lapidaries in Thailand but we expect demand for these qualities of rubies to also grow in Jaipur where Gemfields' CQ emeralds are processed.

CQ ruby production largely comes from primary ruby deposits and overlying high-grade but lower stone quality gravels. Gemfields has substantial primary ruby reserves in a primary ruby deposit called Maninge Nice, which is not currently producing.

N.B. Our model does include CQ ruby production from the Maninge Nice area.

### Neighbours

The Montepuez deposit is and always will be targeted by informal and illegal miners. The scale of the problem can be estimated through the number of people living in Montepuez and based on how many illegal miners are observed in the bush.

According to management, the number of illegal miners has reduced over the years as a result of actions taken by the Mozambican authorities.

Gemfields' formal neighbours include Fura Gems, which acquired Mustang Resources and part of the Regius Resources Montepuez portfolio and Gemrock which acquired other Regius licenses.



## Kagem

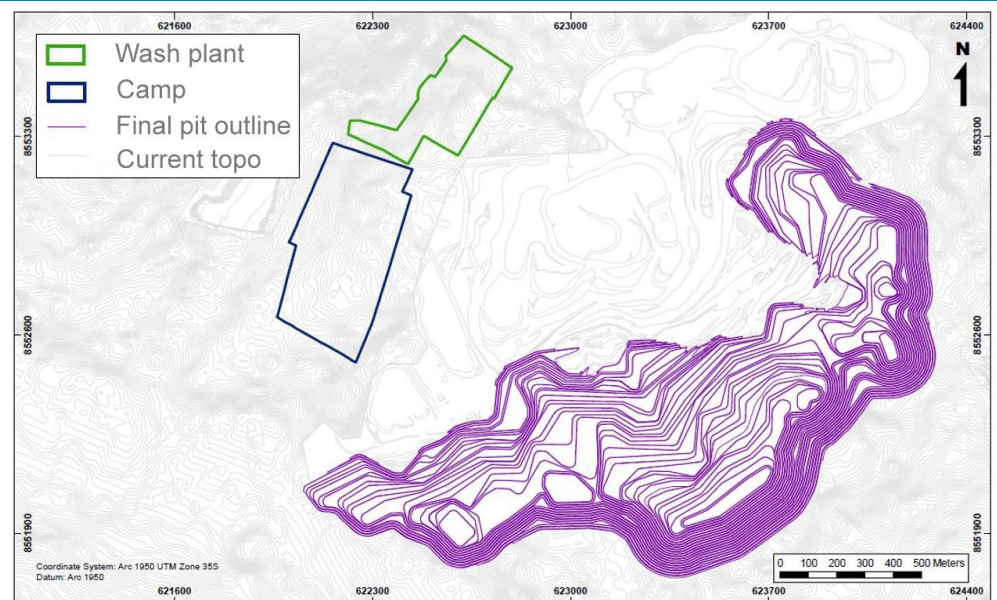
Kagem is located in the Zambian copper belt a short distance from Kitwe, probably the most famous copper town and one of the most popular British colonial postings. Kagem is 260km from the capital Lusaka where some of its emerald auctions are held. The Kagem mining licence was recently renewed and is valid for 25 years to April 2045.

Figure 29: Kagem Mining Licence



Source: Gemfields Group, finnCap

Figure 30: Mine design



Source: Gemfields Group, finnCap

### Chama and Fibolele pits

Chama is the main deposit and operation. It is an open pit mine with 2.2 km of strike length and has contributed approximately 80% of Kagem's gemstone production in recent years and 96% of the ore in SRK's mine plan. The Fibolele open pit, which has a 0.6km strike length, is only a minor contributor.

**Chibolele and internal consolidation**

The Mbuva-Chibolele property (known as Chibolele) is an open pit mine 450m long and growing. Gemfields is transferring Chibolele and 10 more of its licences into the Kagem mining licence. Chibolele is located 3km from Chama.

Figure 31: Kagem product



Source: Gemfields Group, finnCap

**Mining scenario**

Mining at Kagem requires a little more planning than at Montepuez. Chama has a life of mine strip ratio of 76 offset by a very high value ore. Gemfields has investigated an underground mining approach, which although possible presented unique ground control challenges and additional execution risk.

**Neighbours**

Kagem and the emerald region have very few problems with illegal mining. The most significant competitor is the Grizzly Mining operation, approximately 5km away. Grizzly recently had some ownership wranglings and the property returned to local ownership.



## Coloured gems versus diamonds

The large size of the diamond market provides an insight into the potential scale of Gemfields' coloured gemstone market. Due to the scarcity of ruby and emerald deposits, supply limitations will ensure that their markets remain much smaller than the diamond market. However, there is considerable room for growth. The key growth drivers for the ruby and emerald markets are:

1. Increased and dependable production
2. Advertising and marketing

Gemfields has the assets to deliver increased production and the advertising spend will be shared between itself and the jewellery retailers. Alongside product quality control, these factors should be enough to increase ruby and emerald retail demand.

### Diamond market

De Beers' most recent Global Insight Report for 2018 showed rough diamond production of 154 million carats valued at US\$17.4bn. Russia was the largest producing country followed by Botswana (27% and 16% respectively). In line with this statistic, Alrosa was the largest diamond producer by volume closely followed by De Beers. De Beers was the largest diamond company by sales value. Approximately 70% of diamond production came from five major producers and 80% of rough diamond sales by value came from ten companies, nine of which are listed.

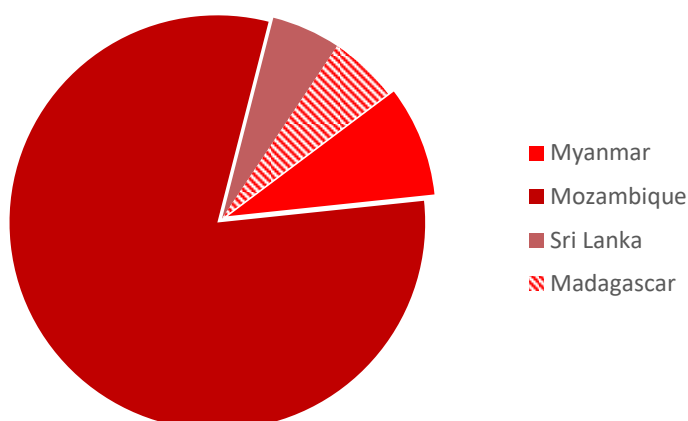
### Coloured gems

There is a huge range of coloured gemstones available to buy, mostly in small quantities, from mostly specialist gemstone retailers. This includes lower value merchandise such as amethysts or tourmalines to rare and unique stones, e.g. aquamarine from an historically important and depleted source. Despite the wide diversity, due to history the most celebrated and desired coloured gemstones are rubies and emeralds.

### Ruby and emerald markets

Gemfields produces up to 70% of global ruby production by value. Accurate production numbers are impossible to determine due to informal production (including illegal mining in Mozambique) and some ruby traders claiming that Mozambican and other (e.g. Sri Lankan) rubies are from Burma/Myanmar to win a higher price. Also, one man's ruby is another's corundum.

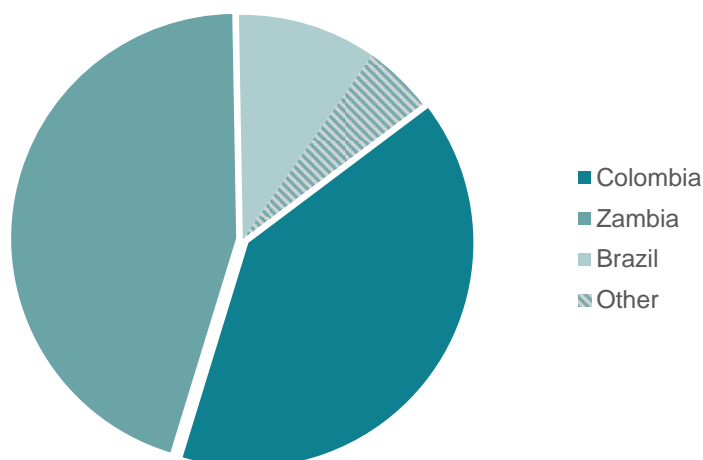
Figure 32: Global ruby production – Value split est.



Source: Gemfields Group, finnCap

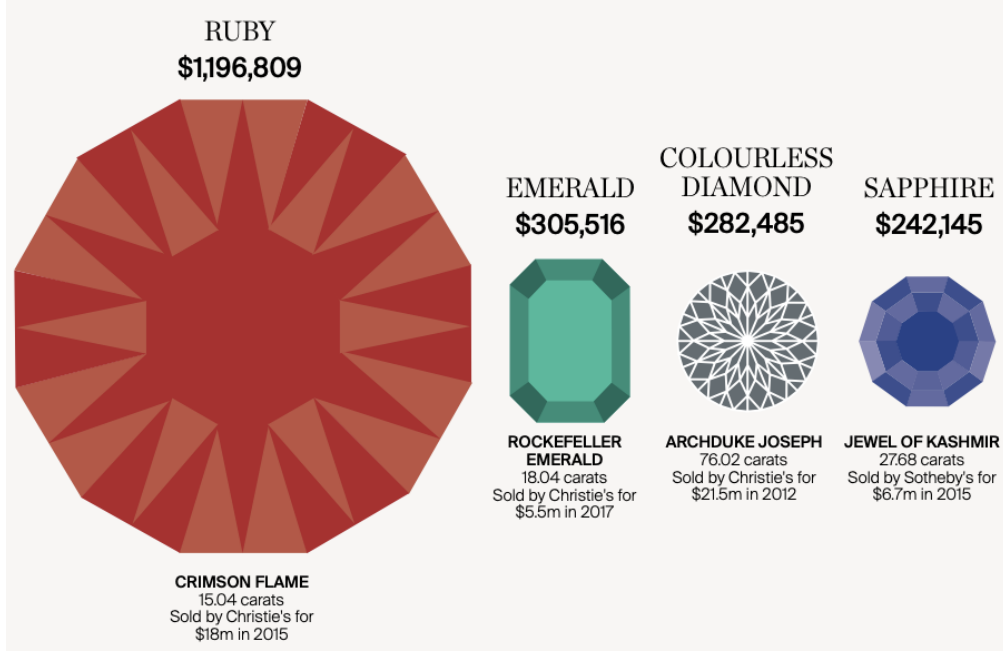
The emerald market is approximately 20 million carats per year of which Gemfields produces between 30% and 40%. The balance of production is mostly from Brazil and Colombia. For example, Bahia in Brazil reportedly produces up to 5 million carats per year, but this is mostly lower quality material, equivalent to Gemfields' low-quality emerald and beryl-1 qualities. As with rubies, overall emerald production is also difficult to estimate. Colombian emerald data for example is non-existent.

Figure 33: Global emerald – Production split est.



Source: finnCap

Figure 34: Coloured stone valuations



Source: Knight Frank

### Unique investment in a growing market

As the only large coloured gemstone company (private or listed), Gemfields is theoretically in a near monopolistic position, not dissimilar to De Beers during the 20th century. Whether this is a major or minor advantage is subject to debate. Management says it would welcome one or more competitors, with whom it could share the cost of promoting coloured stones.

However, the geological reality is that large-scale emerald and ruby deposits are very rare, and Gemfields controls the best (combination of scale and quality) deposits of both in the world. Since it won't be relinquishing any of its licences, the coloured gemstones market is likely to remain controlled by Gemfields.

Gemfields has an opportunity to grow the coloured gemstone market while maintaining its dominance. This should result in significant revenue and profit growth. Price fluctuations of rubies and emeralds should also be modest, especially relative to the diamond industry which has multiple producers and regularly slips into a state of over-supply.

## Fabergé

### Small gross profit

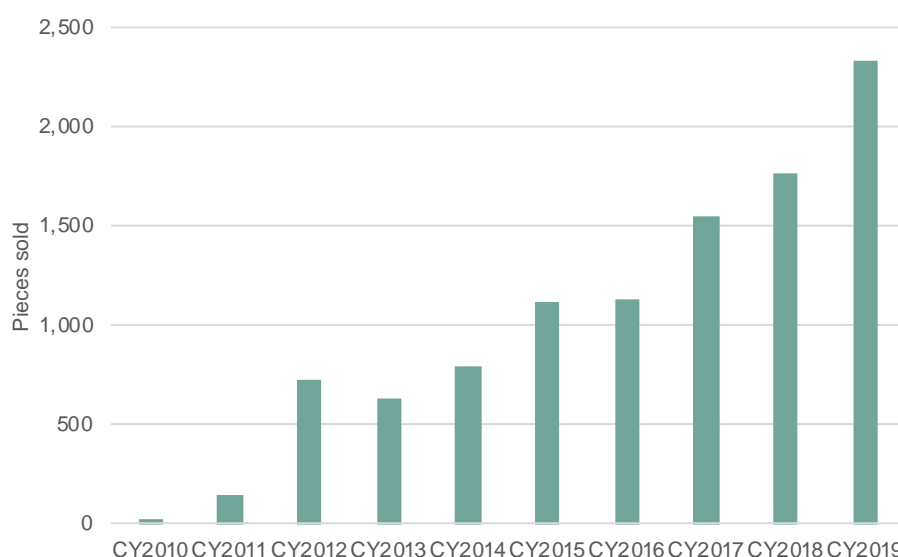
Faberge has recently started to make a small gross profit; this amounted to \$4.9m in FY18 and \$2.4m in FY19.

### Valuation

On Gemfields' balance sheet, Faberge is reflected by an intangible value in addition to \$33.4m of operating assets (= inventory).

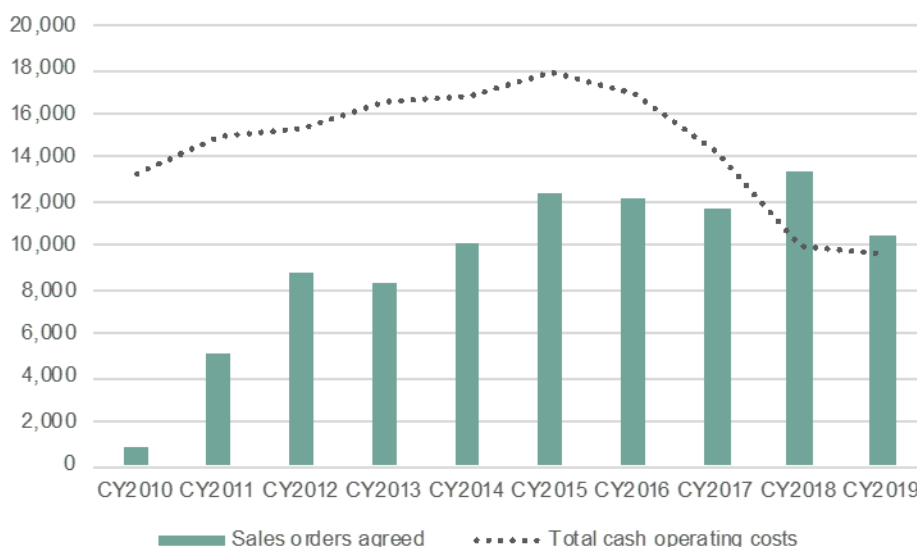
We believe that Fabergé is a valuable brand which reflects Gemfields' investment over the years. Valuing a luxury goods brand is a specialist sector and in our valuation we used the tangible balance sheet number. As such, we view this as a conservative valuation which has the potential to increase very significantly once Fabergé reaches or approaches positive EBITDA.

Figure 35: Fabergé pieces sold – pre-COVID



Source: Gemfields Group, finnCap

Figure 36: Fabergé sales and operating costs – pre-COVID



Source: Gemfields Group, finnCap

## Business model

### Mining company or luxury goods company?

Apart from diamonds, there are no other mined metals or minerals that have such direct exposure to the luxury retail market and its trends. Gemfields mostly sells rough stones without any processing. It also has the Fabergé division (5.5% FY19 revenues) and various Gemfields jewellery brand partnerships (2% of FY19 revenues).

It invests significantly in promoting rubies and emeralds through CSR projects, events, installations and advertising campaigns comparable to a luxury goods brand.

### Corporate overheads and marketing

Gemfields' consolidated G&A costs appear high for a company its size (e.g. as a percentage of revenue). However, of the \$57.5m G&A cost in a normal year (FY19A), we estimate that approximately US\$13.3m per annum was for group corporate costs, in line with similarly sized listed mining businesses with two operating mines.

The balance is mostly spent on non-discretionary activities, which are critical to operations and marketing its rough gemstone production. In FY19 we estimate:

1. Approx. US\$10m of the consolidated G&A figure was spent on advertising expenses directly related to promoting coloured gemstones and the Gemfields brand. Management regards this expense as vital since it ensures that coloured gemstones remain a high profile, sought-after luxury product worldwide.

We reiterate that De Beers was so successful during the 20th century in large part due to its advertising expenditures.

2. Approx. US\$6m was spent on direct marketing costs including holding auctions in Singapore and Jaipur.
3. US\$19m was the mine level G&A defined by Gemfields as not being directly attributable to production.
4. US\$9m was Fabergé's G&A expenditure.

### Corporate Social Responsibility – essential for all business

In the midstream and downstream markets (i.e. cutting and polishing, jewellery manufacturing and retailing), Gemfields is a well-known brand with strong Corporate Social Responsibility credentials.

In 2015 it started to align its operations with the UN Guiding Principles on Business and Human Rights and the extractive industry's Voluntary Principles on Security and Human Rights (VPSHR). In April 2020, Gemfields was the first gemstone mining company to be accepted as a VPSHR corporate member.

Its website and report and accounts document some of its CSR activities.

National Geographic photographer and filmmaker Shannon Wild visited the Gemfields-funded mobile health clinics and schools in the Montepuez region:

*"The new MRM mobile health clinic has made high quality care accessible to 20,000 people from ten surrounding villages – it's literally a life-saver."*

*"The projects were a real eye opener for me, to see how Gemfields is giving back – it's making a world of difference." (Shannon Wild)*

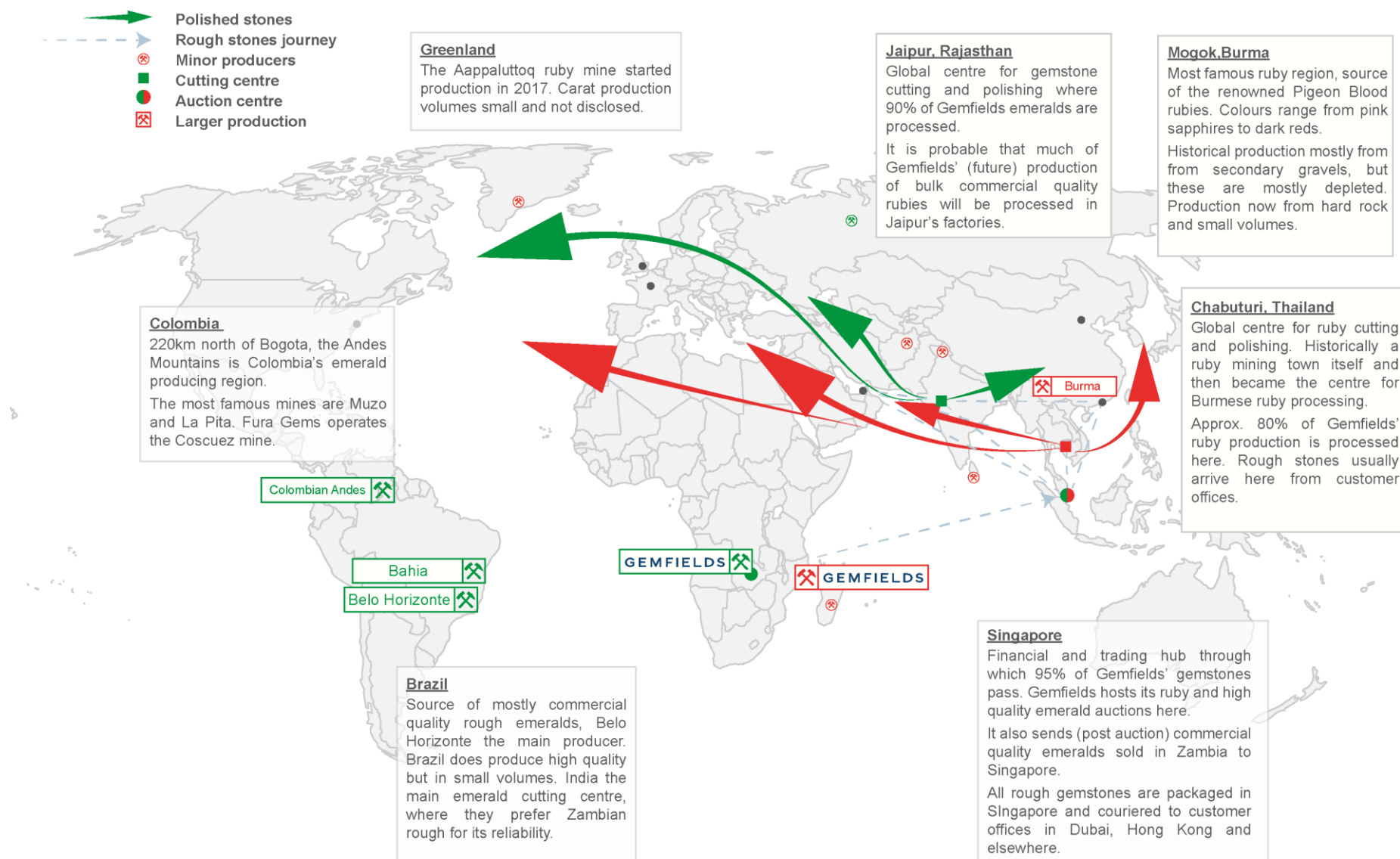
Figure 37: Gemfields funded school – Montepuez



Source: Gemfields Group, finnCap

This CSR exposure is an example of how Gemfields invests in its coloured gemstones market. In today's retail, CSR is key as consumers increasingly look for products with emotive backstories and transparent supply chains.

Figure 38: Gemfields market



Source: Gemfields Group, finnCap

## Strong long-term cashflows

Income statement		2018A	2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
<b>Sales</b>	<b>\$m</b>	<b>206.1</b>	<b>216.2</b>	<b>34.6</b>	<b>161.0</b>	<b>190.6</b>
Cost of sales	\$m	-123.5	-124.7	-59.1	-90.8	-94.5
<b>Gross profit</b>	<b>\$m</b>	<b>82.5</b>	<b>91.6</b>	<b>-24.5</b>	<b>70.2</b>	<b>96.1</b>
Operating expenses	\$m	-59.0	-56.8	-29.7	-44.3	-52.6
<b>EBITDA (adjusted)</b>	<b>\$m</b>	<b>54.2</b>	<b>69.6</b>	<b>-33.2</b>	<b>53.1</b>	<b>68.3</b>
Depreciation	\$m	-30.6	-34.8	-21.0	-27.2	-24.7
Amortisation	\$m	0.0	0.0	0.0	0.0	0.0
<b>EBIT (adjusted)</b>	<b>\$m</b>	<b>23.5</b>	<b>34.8</b>	<b>-54.2</b>	<b>25.8</b>	<b>43.5</b>
Associates/other	\$m	0.0	0.0	0.0	0.0	0.0
Net interest	\$m	-8.8	-4.5	-5.8	-3.3	-2.8
<b>PBT (adjusted)</b>	<b>\$m</b>	<b>14.7</b>	<b>30.3</b>	<b>-60.0</b>	<b>22.5</b>	<b>40.7</b>
<i>restructuring costs</i>	<i>\$m</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>share based payments</i>	<i>\$m</i>	<i>-4.2</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>	<i>0.0</i>
<i>other adjustments</i>	<i>\$m</i>	<i>-64.5</i>	<i>37.1</i>	<i>-39.2</i>	<i>0.0</i>	<i>0.0</i>
Total adjustments	\$m	-68.6	37.1	-39.2	0.0	0.0
<b>PBT (stated)</b>	<b>\$m</b>	<b>-53.9</b>	<b>67.4</b>	<b>-99.2</b>	<b>22.5</b>	<b>40.7</b>
Tax charge	\$m	-6.5	-28.2	6.0	-5.0	-14.7
<i>tax rate</i>	<i>%</i>	<i>n/a</i>	<i>41.9</i>	<i>n/a</i>	<i>22.0</i>	<i>36.1</i>
Minorities	\$m	1.8	10.8	-7.9	6.3	8.6
<b>Reported earnings</b>	<b>\$m</b>	<b>-62.2</b>	<b>28.4</b>	<b>-85.3</b>	<b>11.3</b>	<b>17.4</b>
Tax effect of adjustments / other	\$m	-6.8	6.5	0.0	0.0	0.0
<b>Adjusted earnings</b>	<b>\$m</b>	<b>-42.4</b>	<b>13.3</b>	<b>-73.8</b>	<b>11.3</b>	<b>17.4</b>
<i>shares in issue (year end)</i>	<i>m</i>	<i>1,314.3</i>	<i>1,171.0</i>	<i>1,168.8</i>	<i>1,168.8</i>	<i>1,168.8</i>
<i>shares in issue (weighted average)</i>	<i>m</i>	<i>1,316.6</i>	<i>1,265.0</i>	<i>1,169.1</i>	<i>1,168.8</i>	<i>1,168.8</i>
<i>shares in issue (fully diluted)</i>	<i>m</i>	<i>1,316.0</i>	<i>1,171.0</i>	<i>1,168.8</i>	<i>1,213.2</i>	<i>1,213.2</i>
<b>EPS (adjusted, fully diluted)</b>	<b>c</b>	<b>-3.2</b>	<b>1.1</b>	<b>-6.3</b>	<b>0.9</b>	<b>1.4</b>
EPS (stated)	c	-4.5	2.2	-7.3	1.0	1.5
<b>DPS</b>	<b>c</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

Growth analysis (adjusted basis where applicable)						
Sales growth	%	n/m	4.9%	-84.0%	365.7%	18.4%
EBITDA growth	%	n/m	28.5%	-147.7%	259.9%	28.7%
EBIT growth	%	n/m	47.7%	-255.9%	147.7%	68.4%
PBT growth	%	n/m	106.2%	-298.0%	137.5%	80.8%
EPS growth	%	n/m	135.2%	-656.7%	114.7%	54.2%
DPS growth	%	n/m	n/m	n/m	n/m	n/m

Profitability analysis (adjusted basis where applicable)						
Gross margin	%	40.1%	42.3%	-70.9%	43.6%	50.4%
EBITDA margin	%	26.3%	32.2%	-96.0%	33.0%	35.8%
EBIT margin	%	11.4%	16.1%	-156.8%	16.1%	22.8%
PBT margin	%	7.1%	14.0%	-173.6%	14.0%	21.4%
Net margin	%	-20.6%	6.1%	-213.4%	7.0%	9.1%

## Strong long-term cashflows

Cash flow		2018A	2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
EBITDA	\$m	62.8	67.4	-33.2	53.1	68.3
Net change in working capital	\$m	-29.7	-25.3	31.3	-45.4	11.9
Share based payments	\$m	4.2	1.7	0.9	0.0	0.0
Profit/(loss) on sale of assets	\$m	-11.7	-19.4	0.0	0.0	0.0
Net pensions charge	\$m	0.0	0.0	0.0	0.0	0.0
Change in provision	\$m	0.0	0.0	-0.6	0.0	0.0
Other items	\$m	3.9	22.0	-3.6	0.0	0.0
<b>Cash flow from operating activities</b>	<b>\$m</b>	<b>29.5</b>	<b>46.4</b>	<b>-5.2</b>	<b>7.7</b>	<b>80.2</b>
Cash interest	\$m	-4.4	-3.3	-3.0	-0.5	-0.3
Tax paid	\$m	-24.4	-9.7	-15.0	-5.0	-14.7
Capex	\$m	-31.3	-30.8	-8.6	-10.9	-16.0
Other items	\$m					
<b>Free cash flow</b>	<b>\$m</b>	<b>-30.6</b>	<b>2.5</b>	<b>-31.8</b>	<b>-8.6</b>	<b>49.1</b>
Disposals	\$m	72.1	35.2	0.0	0.0	0.0
Acquisitions	\$m	-0.1	0.0	0.0	0.0	0.0
Dividends on ord shares	\$m	0.0	0.0	0.0	0.0	0.0
Other cashflow items	\$m	0.5	-7.8	-6.0	0.0	-0.6
Issue of share capital	\$m	-4.7	-14.4	-0.2	0.0	0.0
<b>Net change in cash flow</b>	<b>\$m</b>	<b>37.2</b>	<b>15.6</b>	<b>-38.0</b>	<b>-8.6</b>	<b>48.5</b>
Opening net cash (debt)	\$m	-27.4	9.8	25.4	-12.6	-24.1
<b>Closing net cash (debt)</b>	<b>\$m</b>	<b>9.8</b>	<b>25.4</b>	<b>-12.6</b>	<b>-24.1</b>	<b>22.0</b>

Cash flow analysis						
Cash conversion (op cash flow / EBITDA)	%	47.0%	68.8%	n/m	14.4%	117.4%
Cash conversion (free cash flow / EBITDA)	%	-48.7%	3.8%	96.0%	-16.2%	71.9%
Underlying free cash flow (capex = depreciation)	\$m	-29.9	-1.4	-44.2	-25.0	40.4
Cash quality (underlying FCF / adjusted earnings)	%	70.5%	-10.8%	59.9%	-221.8%	232.5%
Investment rate (capex / depn)	x	1.0	0.9	0.4	0.4	0.6
Interest cash cover	x	6.7	14.1	n/a	16.8	233.2
Dividend cash cover	x	n/a	n/m	n/a	n/a	n/m



## Strong long-term cashflows

Balance sheet		2018A	2019A	2020A	2021E	2022E
Year end:		Dec	Dec	Dec	Dec	Dec
Tangible fixed assets	\$m	365.0	376.9	362.7	345.4	335.6
Goodwill	\$m	0.0	0.0	0.0	0.0	0.0
Other intangibles	\$m	130.0	55.2	51.5	52.5	53.5
Other non current assets	\$m	14.7	75.3	43.7	43.7	43.7
<i>inventories</i>	<i>\$m</i>	<i>99.2</i>	<i>110.7</i>	<i>117.8</i>	<i>112.8</i>	<i>115.7</i>
<i>trade receivables</i>	<i>\$m</i>	<i>62.1</i>	<i>87.8</i>	<i>37.1</i>	<i>80.4</i>	<i>67.6</i>
<i>trade payables</i>	<i>\$m</i>	<i>-28.2</i>	<i>-29.9</i>	<i>-21.6</i>	<i>-14.5</i>	<i>-16.5</i>
Net working capital	\$m	133.2	168.7	133.3	178.7	166.8
Other assets	\$m	0.0	0.0	0.0	0.0	0.0
Other liabilities	\$m	-102.6	-122.5	-95.6	-95.6	-95.6
Gross cash & cash equivalents	\$m	63.0	78.2	43.9	30.8	64.9
<b>Capital employed</b>	<b>\$m</b>	<b>603.3</b>	<b>631.8</b>	<b>539.5</b>	<b>555.5</b>	<b>568.9</b>
Gross debt	\$m	53.2	52.8	56.5	54.9	42.9
Net pension liability	\$m	0.0	0.0	0.0	0.0	0.0
Shareholders equity	\$m	476.2	494.3	412.6	423.8	441.2
Minorities	\$m	73.9	84.7	70.4	76.8	84.8
<b>Capital employed</b>	<b>\$m</b>	<b>603.3</b>	<b>631.8</b>	<b>539.5</b>	<b>555.5</b>	<b>568.9</b>

Leverage analysis						
Net debt / equity	%	net cash	net cash	3.1%	5.7%	net cash
Net debt / EBITDA	x	net cash	net cash	n/a	0.5	net cash
Liabilities / capital employed	%	8.8%	8.4%	10.5%	9.9%	7.5%

Working capital analysis						
Net working capital / sales	%	64.6%	78.0%	385.8%	111.0%	87.5%
Net working capital / sales	days	236	285	1,408	405	320
Inventory (days)	days	176	187	1,244	256	222
Receivables (days)	days	110	148	392	182	130
Payables (days)	days	50	50	228	33	32

Capital efficiency & intrinsic value						
Adjusted return on equity	%	-8.9%	2.7%	-17.9%	2.7%	3.9%
RoCE (EBIT basis, pre-tax)	%	3.9%	5.5%	-10.0%	4.7%	7.6%
RoCE (underlying free cash flow basis)	%	-5.0%	-0.2%	-8.2%	-4.5%	7.1%
NAV per share	c	36.2	42.2	35.3	36.3	37.7
NTA per share	c	26.3	37.5	30.9	31.8	33.2

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