

FY17; a cracker result

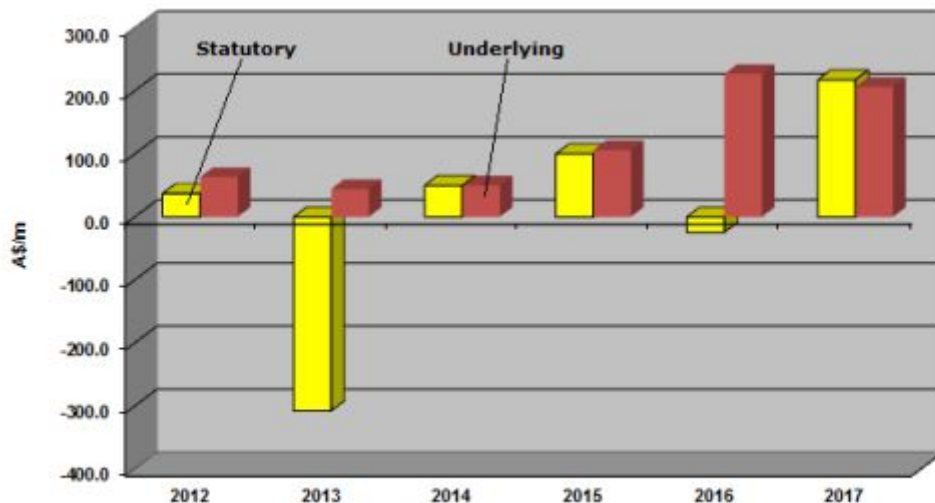
A defining year is what we would call Evolution Mining's 2017 result, following the announcement of a record statutory profit based on record gold production and record lower costs. Moreover, an already good balance sheet remains in strong shape on record free operating cash flow. Furthermore, a new dividend policy has the company paying out a record dividend for 2017. The following table shows a synopsis of the company's 2017 financial result (EBITDA – earnings before interest depreciation amortisation, AIC- all in costs, cps – cents per share):

FY17 financial highlights	Units	FY17	FY16	Change
Statutory Profit after tax	A\$M	217.6	(24.3)	-
Underlying Profit after tax	A\$M	206.6	134.5	↑ 54%
EBITDA	A\$M	713.9	607.6	↑ 17%
Operating Cash flow	A\$M	706.5	628.4	↑ 12%
Group Cash flow	A\$M	382.0	365.0	↑ 5%
EBITDA Margin	%	49%	46%	↑ 7%
AIC Margin	A\$/oz	568	463	↑ 23%
Gearing	%	15.9%	15.1%	↑ 5%
Final dividend	cps	3	2	↑ 50%

Source: Evolution Mining

Overall, we consider the 2017 result to be a very good one, with the company reporting a number of individual records for the year. The recent acquisitions and focus on existing operations has certainly paid off handsomely for shareholders.

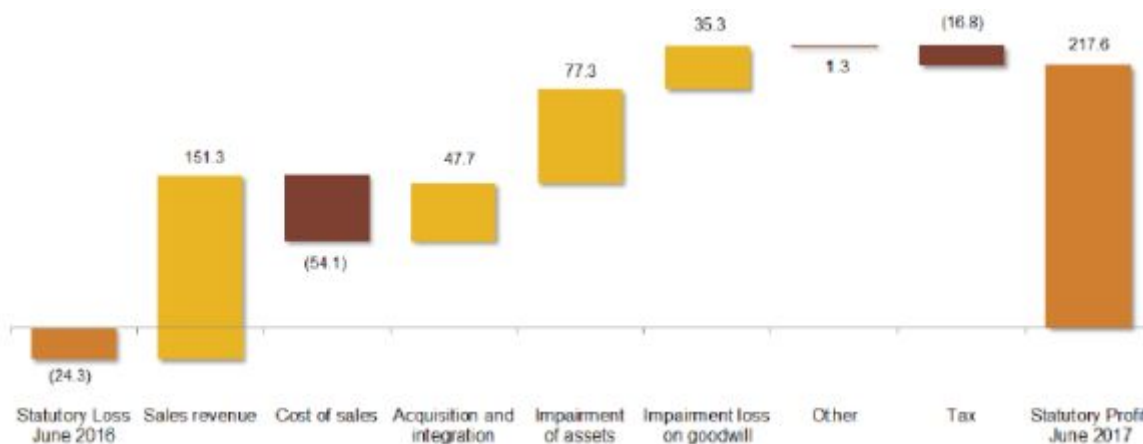
The company reported an underlying net profit of A\$206.6 million and a record statutory profit of A\$217.6 million. On 2016, underlying net profit increased by 54%, while a statutory loss of A\$24.3 million was printed in the previous year. The following chart shows both underlying and statutory profits (A\$/M):



Source: Evolution Mining

On a statutory basis, the better result was driven by higher gold production and lower operating costs. Furthermore, the recent acquisitions, on integration, also had a positive effect on the company’s financial result. Add a positive contribution from higher gold prices and records fell.

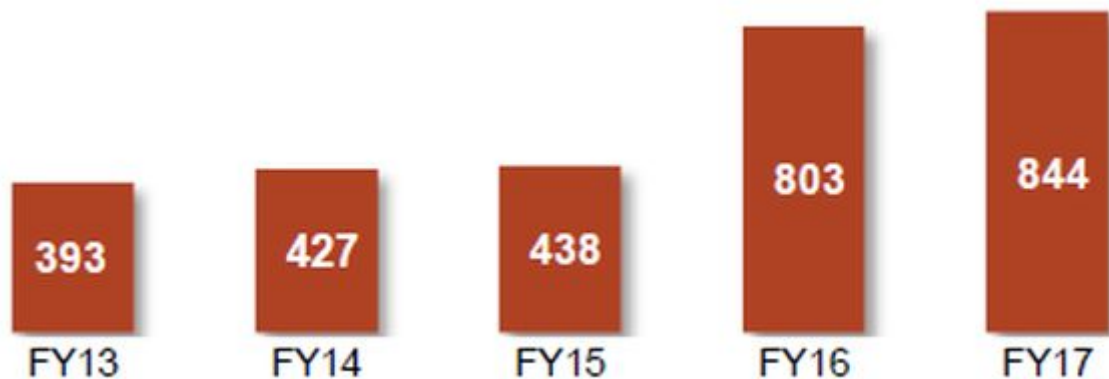
The company moved from a statutory loss to a reported profit in 2017, with the following factors contributing to the result (A\$/M):



Source: Evolution Mining

As Members can see from the above chart, the biggest contributor to the turnaround in 2017 was the improvement in sale revenue of A\$151.3 million. Sales revenue in turn was driven by record gold production for the year and a higher gold price.

Operations delivered a record 844,124 ounces of gold in 2017, which represents a rise of 5.0% on the result from a year earlier. The following chart shows annual gold production (oz/’000):



Source: Evolution Mining

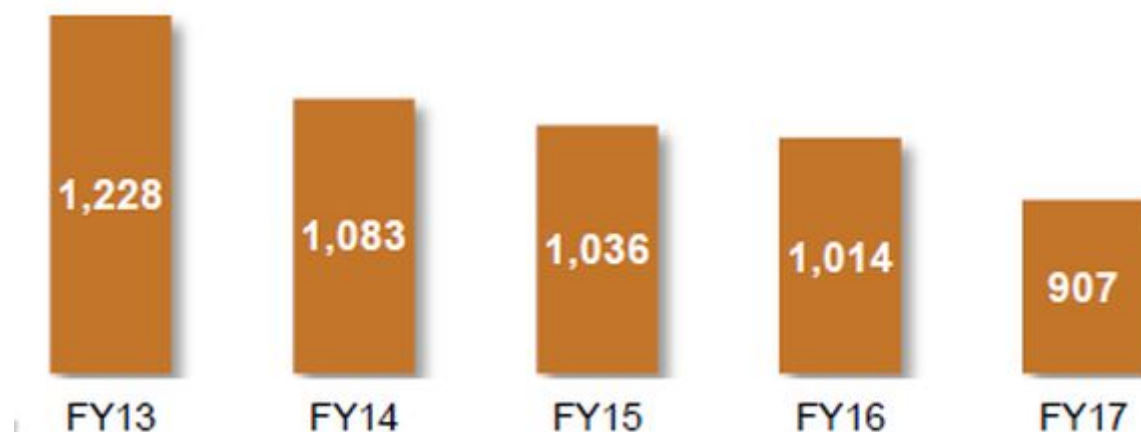
Gold production for the year fell into the upper part of 2017 guidance, which was in the range of 800,000 to 860,000 ounces. The successful integration of recent acquisitions and the optimising of existing operations were behind the better performance.

The company is forecasting gold production in 2018 to be in the range of 820,000 to 880,000 ounces. The forecast step up in production in 2018, reflects we believe the company's efforts optimising its new and existing operations.

On the gold price, the company reported an average realised sales price on spot gold sales totalling 568,981 ounces of A\$1,666 an ounces, for a 1.2% increase on the 2016 result. Additionally, the company delivered 248,493 ounces of gold into its hedge book at an average realised price of A\$1,584 an ounce compared to a realised hedge price of A\$1,599 an ounce from a year earlier. **The company took a haircut in delivering into its hedge book.**

Remaining to be delivered out to 2020 is 458,495 ounces of gold at an average realised price of A\$1,645 an ounce. With the Australian spot price for gold currently trading around A\$1,624 an ounce, the average position of the hedge is 'in-the-money' and would have a positive effect on the sales revenue. **We consider the hedge position as prudent given the volatility in the gold price and the Australian/US Dollar exchange rate.**

Despite the improvement in all-in sustaining costs (AISC), the cost of sales delivered a negative A\$54.1 million on higher mining activities and the allocation of higher stripping expenses in 2017. The following chart shows AISC (A\$/oz):



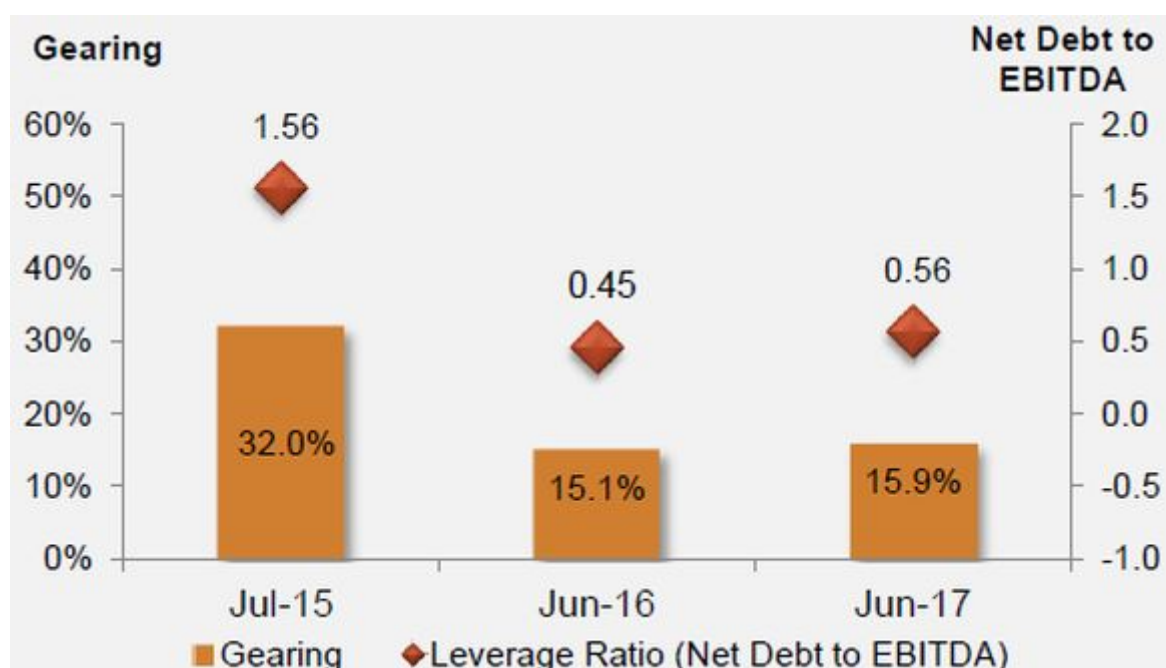
Source: Evolution Mining

The trend is very pleasing given the company made major acquisitions over the course of 2015/16; these acquisitions required integration. AISC hit a record low of A\$907 per ounce which represents an improvement of 10.6% on 2016. Guidance for 2018 is for AISC to fall into the range of A\$850 to A\$900 an ounce. **The 2018 step-down reflects the company's ongoing initiatives in driving costs lower.**

This cost focus is the main driver behind the company successfully generating A\$47.7 million in integration savings in 2017. The company made a number of strategic asset purchases in 2015/16, at what we believe were value adding acquisition prices.

Net operating cash flow was the beneficiary of the better financial performance with the reporting of a 13.4% rise on 2016, to a record A\$650.8 million. The company expects to use this cash flow to sustain operations and fund major capital works. Net operating cash flow was generated on a revenue increase of only 11% compared to 2016, to A\$1.5 billion.

The balance sheet remained in good shape with the company reducing debt through the year by A\$325 million. The following figure shows recent gearing levels and leverage ratio:



Source: Evolution Mining

Evolution held cash at 30 June 2017 of A\$37.4 million, compared to holding A\$17.3 million from a year earlier. As a result of recent acquisitions debt has deteriorated with the 30 June 2017 figure standing at A\$436.1 million compared to A\$296.5 million at 30 June 2016. **Despite the significant 47% movement in debt, the underlying value of the acquisitions and the impact on operations virtually negated the effects of the higher debt pool.**

At the bottom of the financial outcome for 2017 is the dividend, and in response to the good result the full year dividend was increased to A5 cents per share, from the A3 cents per share declared for 2016. In declaring the 2017 dividend, the company has initiated a change in dividend policy to payout 50% of earnings generated each year. The payout will be subject to operational and development requirements each year.



Turning to the daily chart, support was respected at the 61.8% Fibonacci retracement of \$2.17 in early-August. This is a positive development, and has since resulted in a healthy recovery in the share price.

Furthermore, prices have cleared both the 50 (red line) and 200 (green line) day moving averages, which is suggestive of momentum to have swung north. Should the medium-term bulls continue to assert upward pressure, then the next focal point of resistance is expected at the June high of \$2.62.



With reference to the monthly chart, a cluster of support was respected between \$1.72 and \$1.80. This is made up of the 50% Fibonacci retracement (blue set of retracements) and the October 2010, September 2011 and October 2012 resistance (horizontal dashed-blue line) respectively. In addition, a 'bullish doji' candlestick pattern has formed as of the close of trading in December 2016, which is a sign of positive sentiment to arise over the medium-term. In order for the long-term uptrend to strengthen, a decisive break above a band of resistance located between \$2.50 and \$2.63 is required. This price range marks the 61.8% Fibonacci retracement (red set of retracements) and the November 2016 high (horizontal solid-red line) respectively. Should this scenario unfold, then this would bolster medium-term upward momentum, and thus lead to further gains to be had over the longer term horizon.

We hold firmly to the belief that Evolution Mining was well placed to navigate through the turbulent gold price environment of recent years. During that time, the company has made astute acquisitions that have positively impacted on its operations and shareholder value. In conjunction with acquiring new assets, the company has been able to extract further shareholder value from its existing asset base, through increased production and containing costs. **Certainly, the 2017 result has not swayed us from our view that Evolution is well positioned to generate future shareholder value.**

Consequently, Evolution Mining is recommended, as a high conviction buy for Members with no exposure to the stock.

Disclosure: Evolution Mining is held within the Fat Prophets Concentrated Australian Share, Mining & Resources and Small & Mid Cap portfolios.

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Snapshot EVN

Evolution Mining

Evolution Mining is the new name for Catalpa Resources following its successful merger with Conquest Mining. Evolution Mining is a mid-cap gold and silver producer and exploration company with operations in Western Australia and Queensland. The company's activities include five producing gold mines Pajingo, Mt Rawdon and Cracow all in Queensland and Edna May in Western Australia. Evolution recently commenced production from its Mt Carlton gold mine in Queensland that will deliver near-term production growth. Long-term growth lay in the brownfield exploration potential across its five producing mine sites.

Market Capitalisation:\$4.03b

	FY1	FY2
Price to Earnings	12.4	11.1
Dividend Yield (%)	2.10	2.90
Price to Book	1.72	2.58
Return on Equity (%)	14.30	14.70
EV/EBITDA	5.3	9.2

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