

Koza Gold

29/05/2024

Price Target Revision

HOLD

Upside Potential 11%

Upgrading to HOLD. We are raising our PT for KOZAL to TL25/share from previous TL19.21/share driven by i) upward revision in reserves/resources following 2023 UMREK Report, ii) reflecting increase in gold prices, iii) changes in our macro assumptions and iv) roll-forward of our DCF. We upgrade our recommendation for the stock from SELL to HOLD, as it now offers 11% return potential. We deem upside risks to our valuation as more significant than downside risks, since our valuation excludes 5.4mn ounces of inferred resources, which are highly speculative until they become more certain resources.

Low production figures took its toll on operating performance in 2023.

Under Inflation Accounting (IAS -29) reporting, top-line was down by 28% YoY despite increase in gold prices as production volume fell drastically to 142k ounces of gold in 2023 from 194k ounces in 2022. The court rulings against the Company slowing down operations and an estimated 26k ounces of gold extracted but remained unprocessed in 2023 are behind the poor production figures. EBITDA margin realized at 31%, down by 22.4ppt YoY due to lower production and higher TL-based costs in a high inflation environment. Koza Gold's net cash position fell to TL9.25bn as of 2023 year-end compared to TL9.56bn as of 3Q23-end.

2024 outlook. While 168k ounces of gold was extracted in 2023, the amount is anticipated to fall to 123k ounces in 2024 as reserves at Mastra, Kaymaz and Himmetdede mines are expected to be depleted in 1H24. Supported by an estimated 26k ounces of unprocessed gold from 2023, total production volume is expected to reach 150k ounces in 2024. We expect Company's turnover to rise to US\$315mn in 2024, up by 14% YoY, driven mainly by the increase in gold prices. We anticipate Koza Gold to generate US\$146mn EBITDA in 2024 compared to US\$86mn in 2023 on the back of high-grade production at Cukuralan mine, higher gold prices, and an expected normalization in operational expenses.

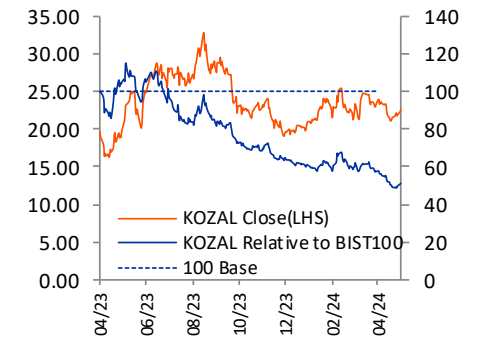
Production is likely to peak between 2026-2028, then decline sharply given the current reserve outlook. Mollakara, Karapınar, and Kaskoy mines, currently under development, are projected to commence production in 2025. With Kubaslar mine coming online in 2026, we estimate an average production of 297k ounces of gold between 2026 to 2028. However, if no new resource or reserve areas are discovered, production is forecasted to decline sharply after 2029, with only Cukuralan mine remaining operational until 2040. Current weak reserve outlook is poised to constrain future production levels, thus limiting the growth potential of the Company. Discovery of new reserves or upgrading of inferred resources to more certain categories may change our production and revenue forecasts.

Stock Data	TL
Price	22.52
Target Price*	25.00
Prev.TP	19.21
Mcap (mn)	72,120
Float Mcap (mn)	21,542
Avg.Daily Volume (3M, mn)	2578.1
No. of Shares Outstanding (mn)	3,203
Free Float (%)	30
Foreign Share (%)	19

Price Perf. (%)	1 Mn	Ytd	12 Mn
TL	-3.8	15.3	8.2
US\$	-2.8	5.7	-32.5
Rel.to BIST-100	-10.6	-19.3	-51.7

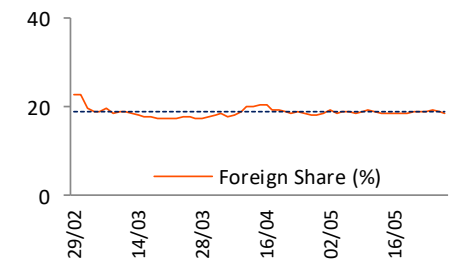
Multiples	2022	2023	2024E
P/E	a.d.	a.d.	17.8
P/BV	2.8	3.2	2.7
EV/EBITDA	9.6	22.8	13.4

Price / Relative Price



52 Week Range (Close TL) 18.99 32.80

Foreign Share (%) Cur.(%) : 18.72

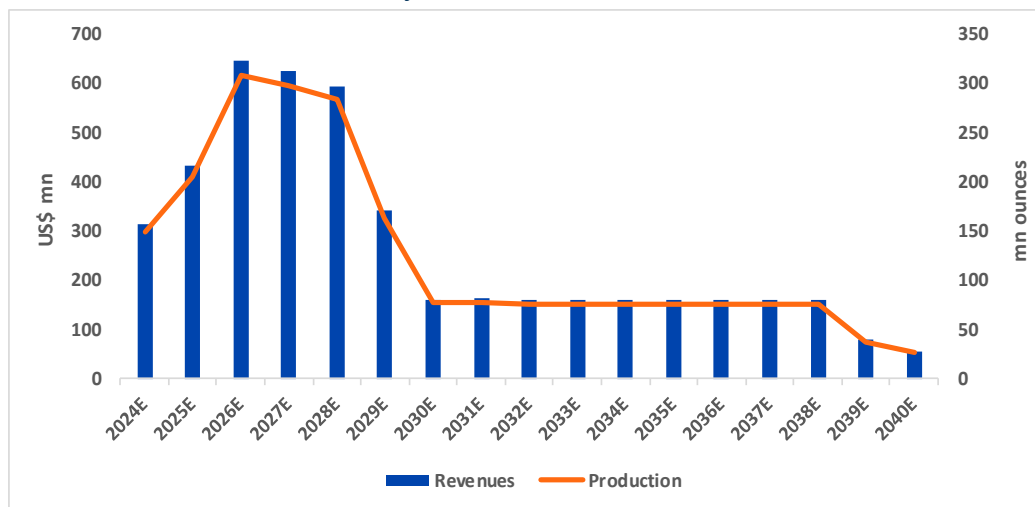


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Chart 1: Production & Revenues Projection



Source: Koza Gold UMREK Report (2023) / Is Investment

According to the 2023 National Mineral Resource and Reserve Reporting Commission (UMREK) report published by Koza Gold, Company’s total mineral reserves as of 2023 year-end increased by 440k ounces compared to 2022 year-end, reaching 2.47mn ounces. Considering the production amount in 2023, the total increase in the reserves rises to 598k ounces. Measured and indicated resources rose to 3.5mn ounces as of 2023 year-end from 3.2mn ounces as of 2022 year-end, while inferred resources increased to 5.4mn ounces as of 2023 year-end from 5.2mn ounces as of 2022 year-end. The Kaskoy Project, for which an UMREK report was published in March 2023, and the upward revision in gold price assumptions were behind the increase in reserves and resources.

Table 1: Koza Gold’s Reserves & Resources as of 2023 year-end (000 ounces)

Mine	Proven/Probable Reserves	Measured/Indicated Resources	Inferred Resources
Ovacik	13	99	119
Cukuralan	1288	2060	506
Kubaslar	86	95	4
Kaymaz	7	7	0
Himmetdede	4	44	0
Mollakara	438	527	4222
Karapinar	159	209	35
Kaskoy	418	421	327
Other	52	74	169
Total	2465	3536	5382

Source: Koza Gold UMREK Report (2023) / Is Investment

Valuation. We are valuing Company’s reserves and resources separately using DCF analysis based primarily on data provided in the latest UMREK report. When valuing resources, we assume that the chance of turning into reserves for measured and indicated resources are 90% and 50% respectively, with no value attributed to inferred resources. For both valuations, an average WACC of 8.8% and a long-term gold price forecast of US\$2100 is used across the projection period. We add UK-based Koza Ltd., a wholly owned subsidiary established for international mining ventures, to our valuation at cost value.

Risks. Higher than expected gold prices, upward revisions in reserves/resources as well as potential newsflow regarding discovery of new reserves and elimination of uncertainty about the company ownership may be catalysts for the stock performance. Higher than expected cash costs and possible delays in production schedules are the main downside risks for our valuation.

Table 2: Valuation Summary for KOZAL

	Enterprise Value (US\$ mn)
Reserves (DCF)	960
Resources (DCF)	452
Koza LTD.	58
Adjusted Net Cash*	340
DCF Equity Value (US\$ mn)	1810
12-month Price Target (TL/share)	25
Current Price	22.5
Upside Potential	11%

*Receivables from group companies are included.

Source: Is Investment

Table 3: Discounted Cash Flow Analysis (Reserves)

US\$ mn	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
Net Sales	315	433	649	625	595	343	161	162	158	158	158	158	158	158	158	79	54
<i>Growth</i>	14%	38%	50%	-4%	-5%	-42%	-53%	1%	-3%	0%	0%	0%	0%	0%	0%	-50%	-31%
EBITDA	146	232	403	392	380	228	86	86	84	84	84	84	84	84	84	42	29
<i>EBITDA margin</i>	46%	54%	62%	63%	64%	66%	53%	53%	53%	53%	53%	53%	53%	53%	53%	53%	53%
Tax (-)	-25	-40	-74	-71	-69	-38	-10	-10	-9	-10	-10	-10	-10	-9	-9	0	4
Change in NWC (-)	6	-8	-12	1	1	19	8	0	0	1	0	0	0	0	0	6	1
Cap-Ex (-)	-197	-178	-27	-19	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7	-7
FCFF	-71	6	290	302	306	201	77	70	68	68	67	67	67	67	68	41	27
Discount Rate	1.09	1.19	1.30	1.42	1.55	1.68	1.83	1.99	2.17	2.35	2.56	2.78	3.02	3.27	3.54	3.84	4.16
Discounted Cash Flow	-65	5	222	213	198	120	42	35	31	29	26	24	22	21	19	11	6

Source: Is Investment

Table 4: Sensitivity Analysis

		Long-term gold price per ounce (US\$)				
		1900	2000	2100	2200	2300
WACC	+2%	21	22	23	24	25
	+1%	22	23	24	25	26
	0%	23	24	25	26	27
	-1%	24	25	26	27	29
	-2%	25	26	27	29	30

Source: Is Investment

Koza Gold

Shareholder Structure (%)

Atp İnşaat Ve Ticaret AŞ	45.01
Diğer	30
Koza-İpek Holding A.Ş.	24.99

Company Description

Koza Altın İşletmeleri AS is a Turkey-based company established to explore and operate gold mines in Turkey.

Income Statement (mn \$)	2022A	2023A	2024E	2025E
Net Sales	381	276	315	433
Gross Profit (Loss)	220	117	170	256
Operating Expenses	50	56	45	55
Core Operating Profit	170	61	126	201
Non-operating Income (Exp.)	-18	-41	-18	-18
Net Investment Income (Exp.)	148	234	239	244
Net Financial Income (Exp.)	-352	-250	-190	-112
PBT	-52	5	157	315
Tax Expense (Income)	61	-9	31	63
Net Profit	-112	14	126	252
EBITDA	204	86	146	232

Growth & Operating Perf.	2022A	2023A	2024E	2025E
Growth				
Net Sales		-28%	14%	37.8%
EBIT		-64%	107%	59.9%
EBITDA		-58%	70%	59.3%
Net Profit			810%	100.5%

Operating Performance	2022A	2023A	2024E	2025E
Gross Margin	57.7%	42.3%	54.1%	59.0%
EBIT Margin	44.5%	22.0%	39.9%	46.3%
EBITDA Margin	53.5%	31.0%	46.3%	53.5%
Effective Tax Rate	-175.0%	-175.0%	20.0%	20.0%
Net Profit Margin	-29.5%	5.0%	39.9%	58.1%
ROE		1.9%	16.5%	27.1%
ROA		1.7%	14.0%	22.4%

Ratio Analysis	2022A	2023A	2024E	2025E
Adj. P / E (x)	n.m	n.m	17.8	8.9
EV / EBITDA (x)	9.6	22.8	13.4	8.4
EV / Sales (x)	5.1	7.1	6.2	4.5
P / B (x)	2.8	3.2	2.7	2.2
EPS (?)		0.1	1.2	2.31
DPS (?)	70.6	0.5	0.0	0.35
Dividend Yield	1.5%	2.4%	0.2%	1.7%
Net Debt (Cash) (mn \$)	-553	-314	-269	-337

Source: İş Investment

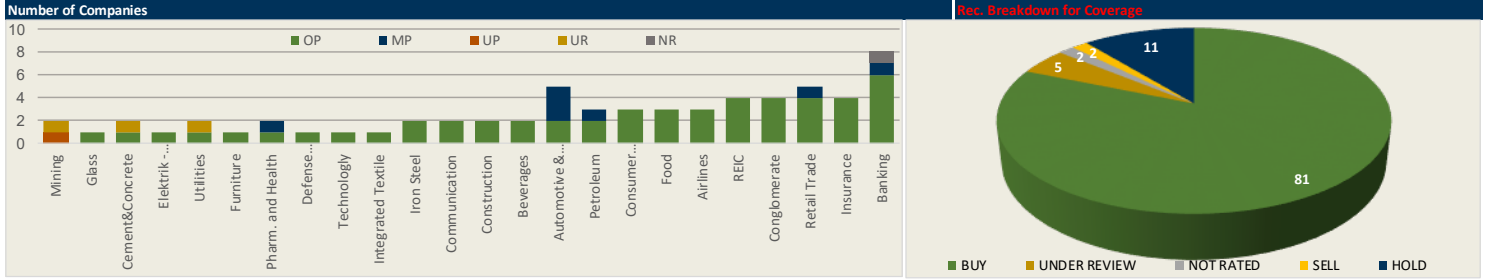
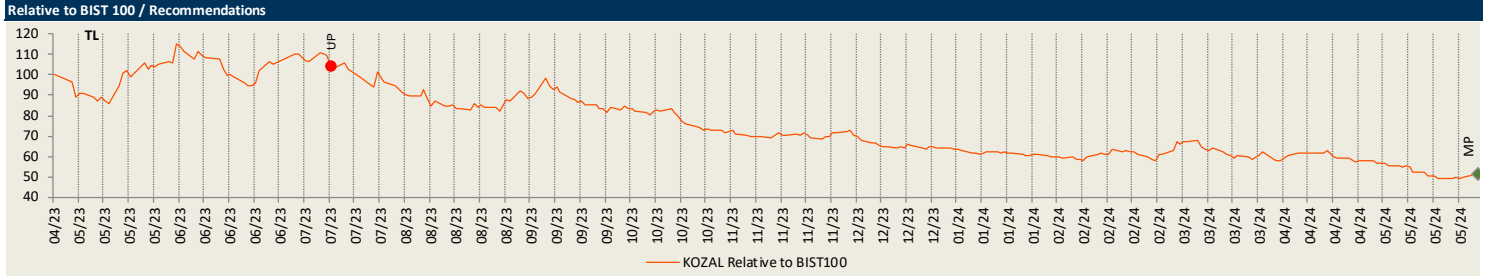
Balance Sheet (mn \$)	2022A	2023A	2024E	2025E
Current Assets	618	389	437	509
Cash and Cash Equivalents	555	328	377	433
Short-Term Trade Receivables	0	0	0	0
Inventories	43	46	42	52
Other Current Assets	19	15	17	24
Long Term Assets	269	396	573	731
Tangible Fixed Assets	144	165	342	489
Intangible Fixed Assets	0	0	0	0
Other Long-Term Assets	125	231	231	242
Total Assets	887	785	1,010	1,240
Short Term Liabilities	60	62	158	165
Short-Term Financial Loans	1	13	105	93
Short-Term Trade Payables	9	10	9	11
Other Short-Term Liabilities	50	39	44	61
Long Term Liabilities	35	22	29	38
Long-Term Financial Loans	1	0	4	4
Other Long-Term Liabilities	35	21	24	34
Equity	792	701	823	1,037
Total Liabilities & Equity	887	785	1,010	1,240

Cash Flow (mn \$)	2022A	2023A	2024E	2025E
Net Cash from Operations	132	-38	149	276
Earnings Before Adjustments	-112	14	126	252
Depreciation & Amortisation	34	25	20	31
Change in Working Capital	67	-12	3	-8
Other Operating Cash Flow	143	-66	-6	-8
Cash from Inv. Operations	-573	139	-197	-178
Capital Expenditures	-29	-34	-197	-178
Other Inv. Cash Flow	-544	173	0	0
Free Cash Flow	-441	100	-48	98
Cash from Fin. Operations	-366	-99	91	-50
Change in Financial Debt	0	12	95	-12
Dividends Paid	-169	-54	-4	-38
Other Financing Cash Flow	-197	-57	0	0
Net Change in Cash	-807	1	49	56

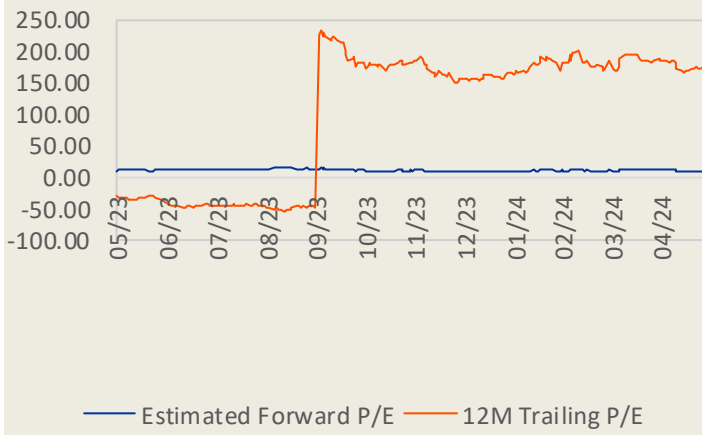
IAS-29 Adjusted Forecasts in US\$ Basis. 2024 year-end USD/TL:37, 2025 Year-end USD/TL:43.7

The monetary gain/loss item, which results from the IAS-29 inflation accounting, is recorded under financial expenses.

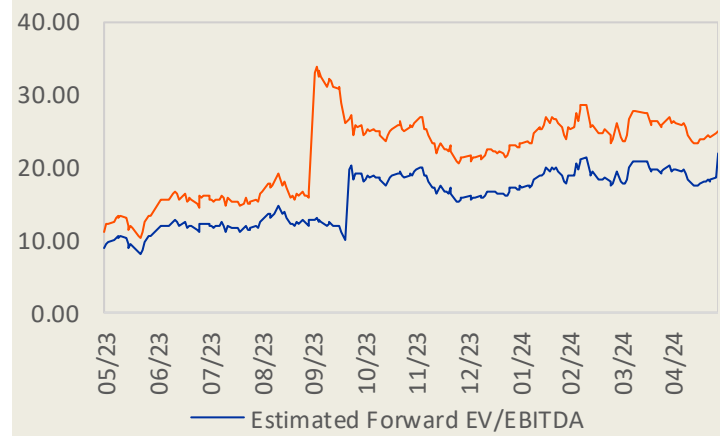
Koza Gold



Estimated Forward P/E & 12M Trailing P/E



Estimated Forward EV/EBITDA & 12M Trailing EV/EBITDA



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