Auplata S.A.
France, Mining

B- STABLE
Corporate Rating

Founded in 2004, Auplata is the dominant gold mining company in French Guiana. The company operates three gold mining sites with total gold production of 594kg and revenues of EUR 20.3m in 2013. In the gold mining sector Auplata ranks as a mid-tier miner in terms of maturity and a small-scale mining company in terms of size and scope. Auplata is currently pursuing a material strategic shift by (1) implementing a new gold exploitation process, (2) expanding the outsourcing of production activities to sub-contractors and (3) increasingly cooperating with larger international senior mining companies. The company has been listed on the Alternext Paris market since December 2006.

Rating

Corporate Rating:	B-
Outlook:	Stable
Sector:	Industry/Mining
Monitoring:	Monitored based on public information
Date of release:	03.06.2014

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Rating Rationale

Scope rates Auplata B-. The rating outlook is Stable. The B- rating reflects Auplata's position as the major player in the actual small French Guiana gold mining market. It also reflects a stability of production volumes going forwards, as Auplata's inferred gold resources are expected to be fully sufficient to cover planned production volumes over the next 10 years. Its relatively small size limits the company in its possibilities to benefit from economies of scale. As such, Auplata's cash flow generation depends on fluctuations in gold and oil prices. Its lack of size and resulting lack of diversification into other commodities is also reflected in an average EBITDA margin of 8.5% over the past four years (negative in 2013).

The rating also incorporates Auplata's regional and operational focus on French Guiana. Although Auplata has a strong track record in successfully obtaining approval and renewal of licenses for its operations, its lack of a broader geographical diversification exposes Auplata to the risk of adverse regulatory changes.

As is not untypical for small-sized players in the mining industry, Auplata showed negative Free Cash Flow in 2013 (minus EUR 12.9m). Although Scope believes that the ongoing investments initiated in 2012 are likely to improve Auplata's ability to sustainably improve cash flow generation over time, the company is not expected to generate sufficient operating cash flows over the next two years to cover these investments. These include adapting the gold exploitation process to the process of cyanidation (the industry standard), further co-operations with senior global mining companies and the realisation of economies of scale through sub-contracting. As a result, the company will continue to rely on external funding until 2016, when Scope expects Auplata to be able to cover its Capex through operating cash flows. Auplata's Total Debt/EBITDA amounted to minus 3.9x in 2013 while EBITDA interest coverage was minus 10.1x. Although Auplata's financial profile is expected to improve, it is still relatively weak and its ability to invest is reliant on the continuation of the strong capital commitment shown by shareholders. In the short-term, Scope expects a comfortable cash cushion of EUR 10.8m and a Net Debt position of EUR 5.0 at year-end 2014, hence, Auplata's liquidity is seen as sufficient to fund this year's operating business and Capex.

Scope also sees a key man risk at Auplata relating to the commitment of its chairman, Jean-Francois Fourt. Mr. Fourt brings an extensive network in the global mining industry to the company and strongly supports the company's access to funding. Thus, the group's planned expansion in the coming years will be closely linked to his commitment but also to Auplata's ability to set-up successful joint ventures with large international mining company groups, which would enable it to improve mining technologies and increase capacity.

Although a Stable outlook is assigned, a change to Positive might be warranted once Auplata has proven that its strategy can successfully translate into higher cash flows.

Rating Drivers

Positive
Strong capital commitment from shareholders in the past and strong support to funding and mineral exploitation expertise from senior management (Mr. Fourt)
Dominant position in the under-explored French Guiana gold market, which has high entry barriers (three concessions and two exploitation permits at three developed mining sites)
Inferred gold resources are fully sufficient to cover planned production volumes over the next years
Proven track-record in sub-contracting mining activities with a positive impact on production volumes and cost coverage
Solid expertise and track record in the regulatory approval process for mining projects in French Guiana
First co-operations with senior mining corporations such as OSEAD, CMT and Nordgold, which support the further corporate development
Recent approval of cyanidation for gold exploitation in a pilot unit offers prospects for improving productivity and profitability beyond 2015

Negative
Weak financial profile in particular with regard to profitability and interest coverage over the last 3 years
Very small mid-tier gold mining company with very limited operational, commodity and regional diversification
No data on measured gold reserves available yet
High exposure to changes in gold and oil prices which are not actively hedged
Regulatory risks in French Guiana associated with the prolongation of exploitation permits and the cyanidation process
Key person risk exists through the company's chairman Jean-Francois Fourt, who has an extensive network in the global mining industry and facilitates access to funding
Substantially negative Working Capital

Rating Change Drivers

Positive	Negative
Significant increase of gold spot prices in the mid term	Deterioration of gold spot prices in the mid term
Successful implementation of Auplata's corporate strategy incl. (1) boost of gold production volumes, (2) increasing efficiency through cyanidation process and (3) enhancing profitability leading to an improvement of the company's cash flow generation and leverage	Failure to execute the corporate strategy incl. (1) stagnation of gold production volumes, (2) operating challenges relating to the implementation of the cyanidation process and (3) continued pressure on profitability impairing cash flow generation and burdening financial leverage
Attraction of further larger senior mining companies	Ongoing requirement for external funding beyond 2015

Financial Overview

	2011	2012	2013
P & L Statement (kEUR)			
Revenues	13,241	20,860	20,314
EBITDA	1,324	2,467	-5,335
EBIT	-1,258	1,017	-8,480
Interest expenses	605	702	526
Net interest income (NII)	-603	-687	-526
Total Debt	36,972	41,126	20,893
Net Debt	3,888	-1,733	6,277
Cash Flow Statement (kEUR)			
Free Cash Flow (FCF)	-2,240	1,705	-12,944
Operating Cash Flow (CFO)	522	3,233	-5,594
Funds flow from Operations (FFO)	1,262	1,683	-5,803
CAPEX	2,762	1,528	7,350
Changes in Working Capital	740	-1,550	-209
Financial ratios			
EBITDA Margin	10.0%	11.8%	-26.3%
EBIT Margin	-10%	5%	-42%
Total Debt / Total Assets	0.50x	0.59x	0.47x
Total Debt / EBITDA	27.92x	16.67x	-3.92x
Net Debt / EBITDA	2.94x	-0.70x	-1.18x
EBITDA / Interest expenses	2.19x	3.51x	-10.14x
Net Debt / (FFO+ NII)	5.90x	-1.74x	-0.99x
CFO / Total Debt	1%	8%	-27%
FCF / Total Debt	-6%	4%	-62%
Gold production and global market pricing			
Gold production volume (oz.)	13,298	18,413	20,953
Gold spot (USD/oz.)	1,573	1,669	1,411

Source: Auplata, Scope, Bloomberg

Business Risk Profile – High operational and market risks partly offset by strong capital and management commitment

Dominant position in the under-explored gold market of French Guiana

Founded in 2004, Auplata is the dominant gold mining company in the small, under-explored gold mining market of French Guiana. The company operates three gold mining sites with total gold production 594kg and revenues of EUR 20.3m in 2013. In the gold mining sector, Auplata ranks as a mid-tier miner in terms of maturity and a small-scale mining company in terms of size and scope.

Exposure to commodity price fluctuations results in volatile cash flow profile

Auplata operates in a cyclical industry

Auplata's cash flows are entirely derived from the sale of gold. While the company benefits from the guarantee about the spot sale of gold to the world market, it is also heavily exposed to market cycles and the complex price dynamics of gold (supply/demand as well as the speculative investment nature of gold as a safe haven currency).

After a 12-year run Scope expects the gold price to stabilize between USD 1,200/oz. – USD 1,300/oz. This corresponds to Auplata's expectations of USD 1,250/oz. Stressing price assumption on the gold price, Scope expects Auplata to be able to achieve operative (EBITDA) breakeven in 2014 at an average gold price of USD 1,100/oz. Due to Auplata's small size and its exposure to commodity price fluctuations, the business model appears highly elastic and risks of volatile earnings generation remain.

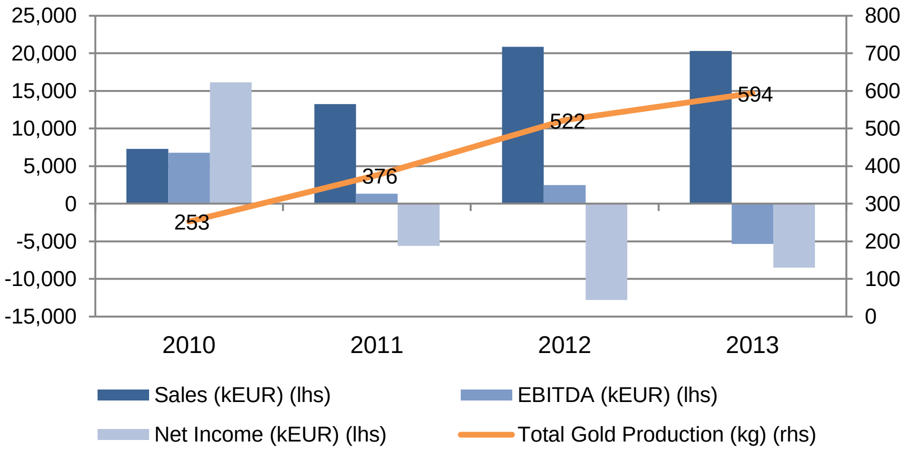
Lack of hedging remains a rating constraint

Furthermore, Scope sees operating risks in the fact that Auplata does not actively hedge commodity prices and risks related to foreign exchange rates. While all revenues are determined by the US dollar price of gold, more than 60% of the costs are booked in euro. The same is true for commodity price fluctuations. As gold and oil prices do not fluctuate in line due to different price drivers, Auplata is strongly exposed to diverging commodity price movements. The lack of currency and commodity price hedging therefore leaves the business model vulnerable to external market shocks and resulting price fluctuations.

Strong increase in gold production volumes but cash flow is volatile

Despite the strong increase in gold production and sales volumes over the last four years, the company still reports negative Free Cash Flows, which is typical for small-sized players in the industry. Its relatively small size limits the company's ability to benefit from economies of scale and diversification into commodities other than gold. The company is currently making significant strategic changes. As a result, earnings and cash flows were volatile over the period from 2010 to 2013.

Figure 1 - Financial Overview



Source: Auplata, Scope

Size and scope are major rating constraints

Lack of material diversification in terms of commodity and geography

Auplata's small scale, measured by a planned average annual gold production volume of 34,000 gold ounces (~963kg) between 2014 and 2016, remains a key rating constraint. Although the company has reached an advanced stage in terms of exploration activities, production volumes are very small compared with other small-scale and mid-tier gold mining companies around the globe. As a result, the company is very vulnerable to price fluctuations in commodities such as gold and oil.

In addition, it exposes Auplata to event risks, as its only two gold mining sites (Dieu Merci and Dorlin) are in just one country. Scope expects improved diversification at earliest by 2017, when the company will re-open its Yaou mining site and will probably have closed further co-operations with larger, senior international mining companies.

Inferred gold resources and estimated gold reserves fully sufficient to cover planned gold exploration volumes

Inferred gold resources at the three gold mining areas amount to >4.2m ounces (>121,000kg)[1]. Auplata has not yet conducted feasibility studies to measure gold reserves. However, even after applying a large 80% discount to inferred gold resources to minimize forecasting risks, Scope believes that the estimated gold reserves should be fully sufficient to cover planned gold exploration volumes for at least 10 years.

Mining permits/concessions are Auplata's valuable assets because of high entry barriers

Each mining site holds different gold research/exploration permits or concessions. Scope considers these permits and concessions to be valuable assets as they grant access to the gold exploration market in French Guiana, which features high entry barriers for international mining companies. Despite these high entry barriers and Auplata's strong track record with regulatory bodies, it still faces regulatory risks by operating in one jurisdiction only. From Scope's perspective, these risks are associated with (1) the prolongation of exploitation permits and (2) its envisaged change in gold recovery method. While Scope believes that Auplata's exploitation permits are not at risk as Auplata fulfills all regulatory requirements for the continuation of their exploration activities, the company first has to prove its ability to handle the new gold recovery method.

Permit expiry risk limited

Currently Auplata holds gold exploitation permits for three mining sites (Yaou, Dorlin and Dieu-Merci) in French Guiana directly through its mining entities. While the permit/concession for Dieu-Merci runs until 2018, Auplata is required to go into a prolongation process for its Dorlin mining site at the beginning of 2015 as the permit expires in July 2015. According to Auplata, the Dorlin mining site will contribute roughly 30% to the group's sales in 2014.

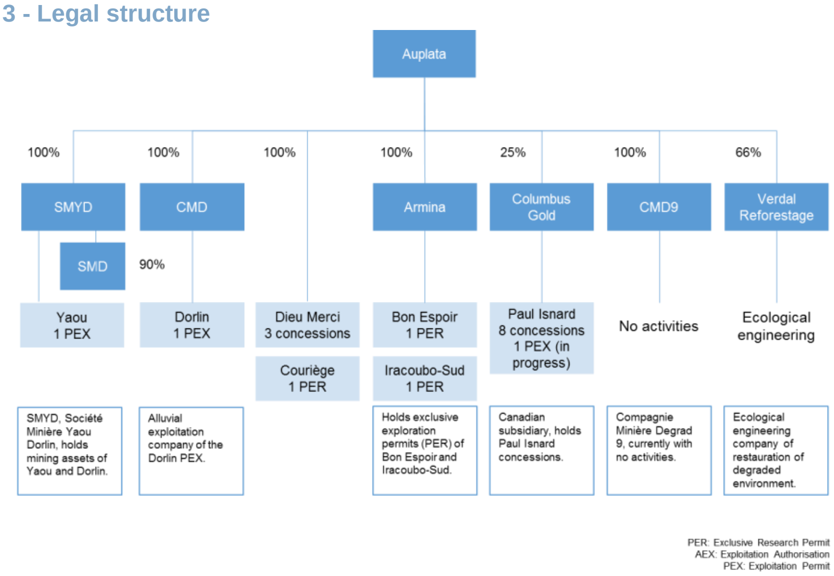
Figure 2 – Gold exploitation permits and concessions

Mining Site	Type	Maturity	Comment
Dieu-Merci	Concession	12/31/2018	
Dorlin	Exploitation Permit	7/30/2015	Prolongation process expected to start in 2015
Yaou	Exploitation Permit	11/11/2014	Gold exploration ceased by 2017

Source: Auplata, Scope

[1] Taking into account explored gold volumes of >140,000 ounces (>4,000kg) since 2004.

Figure 3 - Legal structure

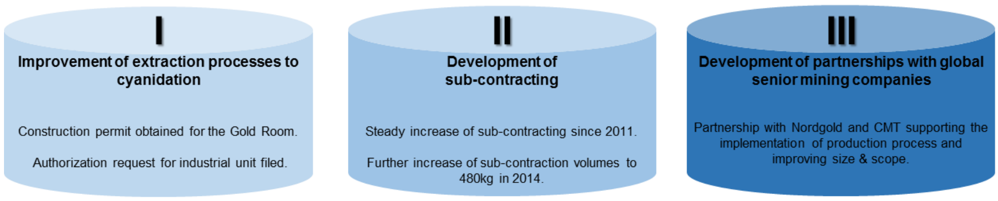


Source: Auplata

If successful, Auplata's strategy could improve cash flow generation over time

Since 2012, Auplata has been implementing its growth strategy focused on improving productivity and profitability. This strategy is built on three main pillars: first, a more efficient gold production process; second relying on sub-contractors to perform mining tasks of low added value; and third developing partnerships with large global mining companies. Scope believes this strategy could improve cash flow generation over time.

Figure 4 – Three-pillar strategy



Source: Auplata, Scope

Implementation of new cyanidation process is a major milestone in French Guiana

Firstly, Auplata plans to increase its productivity and reduce costs by upgrading to a more efficient chemical gold extraction technology called 'cyanidation'. The company currently extracts gold through the physical process generally used in French Guiana called 'gravimetric process'. Gravimetric process only allows for extraction rates generally below 30%. By contrast, cyanidation can enable extraction rates of up to 80-90%, and thus offers significant potential for Auplata's productivity, not only for the processing of newly quarried ore but also for the re-processing of residual ore from gravimetric extraction. This chemical process is the preferred method for gold extraction used around the world, but it has not yet been applied in French Guiana. While the process has already proven reliable, cyanidation represents environmental risks. It therefore requires French regulatory approvals in order to be operated.

After having received the approval to build and operate a cyanidation pilot unit in Rémire-Monjoly, Auplata will be the first mover in French Guiana, which Scope sees as a major milestone for the company on its way to a sustainably profitable business model. Besides that, Auplata is currently in the approval process for a larger gold processing plant with a capacity of 300 tons ore per day. While regulatory risks remain, Scope trusts that execution risks will likely be mitigated through the co-operation with Compagnie Minière de Touissit (CMT) - Auplata's major anchor investor and a major Morocco-based senior mining company active in mining various minerals such as lead, zinc, silver and gold.

Material expansion of sub-contracting with proven track record

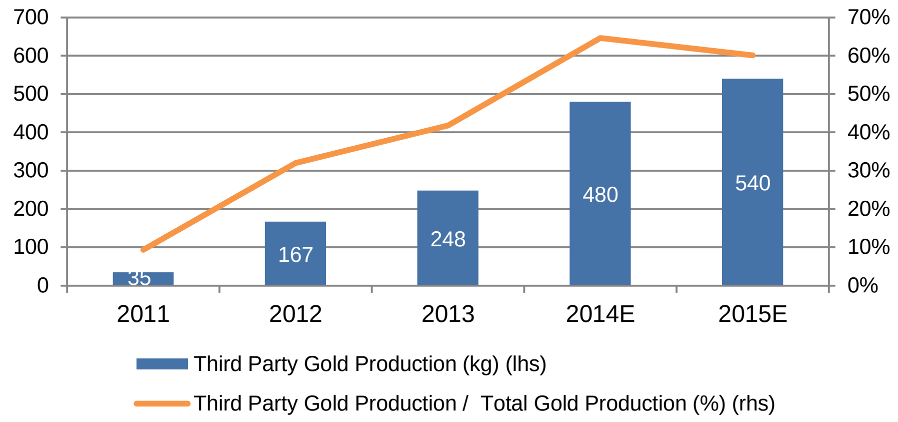
A second strategic pillar of Auplata includes the increasing reliance on outsourcing mining activities which, is a standard in the international mining industry. These activities include building the mine and its access, digging, extracting the gold and closing the mines. This initiative aims to increase the scale of Auplata's operations and to boost its overall gold production. Scope believes that this strategy offers significant upside potential because the costs of outsourcing and provision of margins are generally outbalanced by scaling effects. Furthermore, this strategic development will likely be reflected in a better Business Risk Profile in the medium term. However, it also raises significant risks of losing production volumes through the default or dysfunction of a sub-contractor.

Risks of sub-contracting are more than off-set by benefits

Auplata's strategy of increasing out-sourcing of mining activities with low added value exposes the company to more operational problems with sub-contractors. At this point, a short-term loss of a given sub-contractor and the resulting loss in production volumes can hardly be covered by Auplata's own extraction capacities.

Nevertheless, Scope believes that Auplata's track record suggests it can manage such operational risks. Over the last three years, the company has demonstrated its ability to establish and develop co-operations with sub-contractors. Third-party production volumes increased from 35kg in 2011 to 248kg in 2013, which represents 42% of total production volumes in 2013. Scope therefore expects that Auplata can further expand its sub-contracting activities in the short-term (>60% in 2014) in order to increase its mining footprint in French Guiana.

Figure 5 – Development of gold production through sub-contractors



Source: Auplata, Scope

Co-operations with senior mining companies with first successes

Thirdly, Auplata intends to fuel its growth through strategic co-operations with experienced international mining companies. Such agreements will help Auplata to benefit from:

i) general business know-how,
ii) technological transfers,
iii) the positive image of reliability from experienced mining players and
iv) financial support in carrying out further exploration projects.

Scope sees that the first milestones of this strategic goal have been reached, i.e. through the entry of the anchor investor Compagnie Minière de Touissit in 2013 and through an agreement between Auplata's 25%-owned subsidiary Columbus and the major global mining group Nordgold in 2014. Nevertheless, the successful implementation of further such agreements primarily relies on the connections in the mining industry brought by the company's key shareholders, including CMT, and the commitment of the company's Chairman Jean-Francois Fourt.

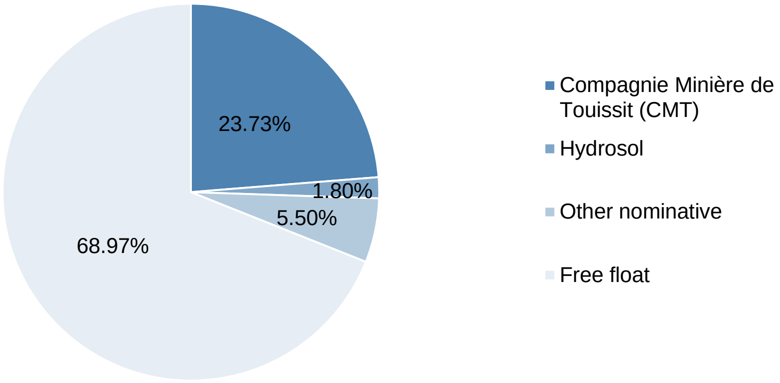
Strategy bolstered by strong capital and management commitment

Strong commitment on equity and debt from anchor investors

Since the Initial Public Offering in December 2006 the company has enjoyed strong financial backing. By now, Auplata has secured about EUR 51m in equity or shareholder-linked debt respectively for financing the operative business and capital expenditures.

Auplata is currently backed by one major anchor investor - Compagnie Minière de Touissit (CMT), a major Morocco-based senior mining company active in mining various minerals such as lead, zinc, silver and gold - which holds 23.7% in the company. Moreover, CMT has extended further backing by providing a shareholder loan to the company and intends to support Auplata with the planned bond issue.

Figure 6 - Shareholder Structure



Source: Auplata, Scope

Some key man risk exists

Scope sees a highly committed management, in particular with regard to the company's Chairman Jean-Francois Fourt. Having been involved in the global mining industry for many years and filling the roles of CEO of OSEAD - a major French multi-resource mining company – and Chairman of Auplata's anchor investor CMT. Mr. Fourt brings an extensive network in the global mining industry to the company but also supports the company's access to funding. As Mr. Fourt has initiated the ongoing structural changes underway at Auplata, Scope believes that his commitment will remain very strong over the next few years.

Financial Risk Profile – weak and volatile cash flows but moderate leverage

Still relatively volatile profitability and cash flow generation

Auplata's Financial Risk Profile fully reflects the company's elasticity to commodity prices but also its strategy, which started to be implemented in 2012. Auplata's cash flow generation and profitability are very influenced by fluctuations in commodity prices and the corporate restructuring. EBITDA margins ranged from 93.5% in 2010 to a negative 26.3% in 2013, which works out to an average EBITDA margin of 8.5% over the past four years.

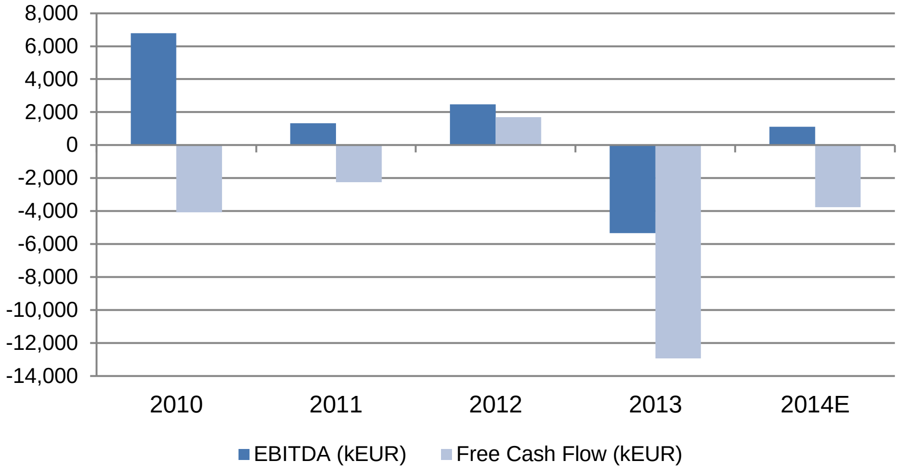
Despite the steady increase in gold production and sales volumes over the last four years, profitability and cash flow generation are very volatile. Nevertheless, this financial risk profile is typical for a mining company of Auplata's size and scope and could improve with implementation of Auplata's strategy.

Negative Free Cash Flows expected until 2016 - further external funding needed

As is typical for small-sized players in the industry, Free Cash Flows have been mostly negative for the last five years. Hence, the company needed to rely on external capital funding. Interest – in particular on the bond issue from 2010 – has been paid in full and on a timely basis. However, Scope notes that interest payments have been covered by capital injections rather than the operating business.

Although Scope expects Auplata's EBITDA to return to positive territory in 2014 (EUR 1.1m), Free Cash Flows are likely to remain weak over the next 2 years. Free Cash will likely be burdened by the ongoing high Capex for the construction of the cyanidation pilot line (Goldroom) in 2014 and the expected Capex for the first industrial cyanidation unit at Dieu-Merci in 2015. Significant improvements are not expected by Scope before 2016, when the corporate implementation of its strategy will mature and, if successful, translate into improved cash flow generation.

Figure 7 – Development of Free Cash Flows



Source: Auplata, Scope

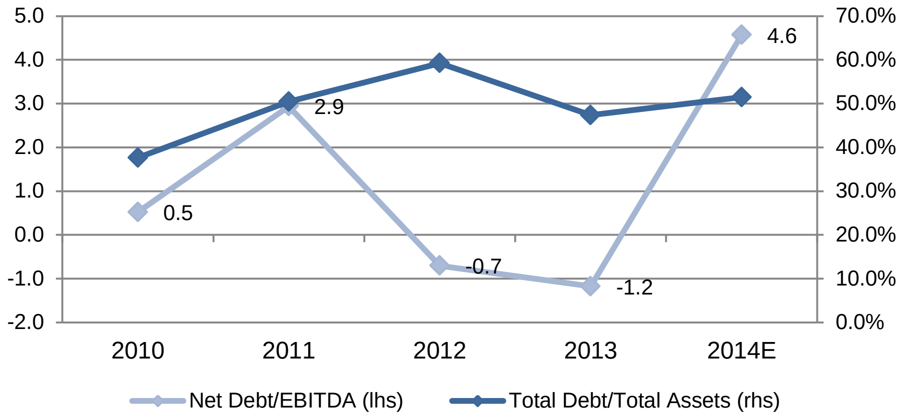
Moderate financial leverage bolstered by strong shareholder commitment

Auplata has moderate financial leverage with an equity ratio of 52.6% at end 2013, bolstered by the strong commitment of shareholders over the last years. Nevertheless, the company's Net Debt/EBITDA multiples reflect its weak profitability in 2012 and 2013. Scope anticipates a Net Debt/EBITDA ratio of 4.6x at the end of 2014 after the bond issue vs. a Net Debt/EBITDA of minus 1,0x in 2013. However, this comparably low Net Debt/EBITDA ratio will be more the result of the company's low Net Debt position than its operating strength.

Adequate liquidity cushion after the capital increase and bond issue in 2014

Taking into account the EUR 5.0m capital increase of March 2014 and the planned EUR 10.0m bond issue, Auplata is well funded for 2014. Scope expects a comfortable cash cushion of EUR 10.8m and a Net Debt position of EUR 5.0 at YE14, hence, Auplata's liquidity is seen as sufficient to fund this year's operating business and Capex. Nevertheless, further external funding will most probably be required given the planned Capex of EUR 22.0m between 2014 and 2016.

Figure 8 – Development of financial leverage



Source: Auplata, Scope

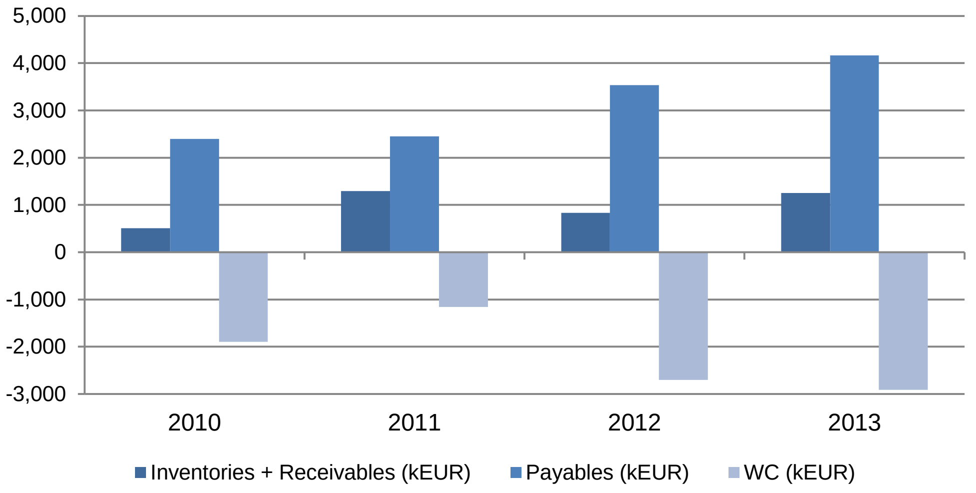
No refinancing risks remain after liabilities restructuring

Auplata is expected to have no further material interest-bearing liabilities on its balance sheet after redeeming the EUR 5.4m corporate bond issued in 2010 and replacing a EUR 2.5m shareholder loan with a stake in the planned new bond issue. Scope therefore sees no further refinancing risks from other debt positions.

Negative Working Capital

Auplata has lean Working Capital management since the gold is sold directly to the market. The company has even reduced its Working Capital needs over the last years through greater recourse to sub-contracting. Working Capital was a negative EUR 2.9m at the end of 2013, so short-term assets have not been sufficient to cover short-term liabilities. By keeping short-term assets stable and not reducing payables, Auplata should not face any immediate Working Capital requirements over the next 2-3 years.

Figure 9 – Development of Auplata's Working Capital



Source: Auplata, Scope

Outlook

Outlook: Stable

Although a Stable outlook is assigned, a change to Positive might be warranted once Auplata has proven its ability to translate its strategy successfully into higher cash flows.

Important information

Information pursuant to Regulation (EC) No 1060/2009 on credit rating agencies, as amended by Regulations (EU) No. 513/2011 and (EU) No. 462/2013

Responsibility

The party responsible for the dissemination of the financial analysis is Scope Ratings GmbH, Berlin, District Court for Berlin (Charlottenburg) HRB 145472, directors: Thomas Morgenstern, Florian Schoeller.

Rating prepared by

Sebastian Zank, Lead Analyst

Rating committee responsible for approval of the rating

Dr. Britta Holt, Committee Chair

The rating concerns an issuer, which was evaluated for the first time by Scope Ratings GmbH.

Usually a credit rating is accompanied by a rating outlook, which can be Stable, Positive or Negative. The Positive and Negative outlooks would normally refer to a time period of 12-18 months. These outlooks do not necessarily signal that a rating upgrade or downgrade, respectively, will automatically follow. The probability of such a rating outcome, however, would be higher than 50%.

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- ☒ Prospectus
- ☒ Valuation reports, other opinions
- ☒ Current performance record
- ☒ Annual financial statements
- ☒ External market reports
- ☒ Interview with the issuer
- ☒ Website of the rated entity
- ☒ Annual reports/semi-annual reports of the rated entity
- ☒ Detailed information provided on request
- ☒ Data provided by external data providers
- ☒ Press reports / other public information

Scope Ratings considers the quality of the available information on the evaluated company to be satisfactory. Scope ensured as far as possible that the sources are reliable before drawing upon them, but did not verify each item of information specified in the sources independently.

Examination of the rating report by the rated entity prior to publication / Modification of the report after the examination

The rated entity was given the opportunity to examine the rating report prior to publication. Following that examination, the rating report was modified without impact on the rating.

Methodology

The methodology applicable for the rating of Corporates is available on www.scoperatings.com. The historical default rates of Scope Ratings can be viewed on the central platform (CEREP) of the European Securities and Markets Authority (ESMA): http://cerep.esma.europa.eu/cerep-web/statistics/defaults.xhtml. A comprehensive clarification of Scope's default rating, definitions of rating notations and further information on the analysis components of a rating can be found in the documents on methodologies on the rating agency's website.

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