

# Aura Minerals S.A. - Full Analysis

November 29, 2022

## Ratings Score Snapshot

**PRIMARY CONTACT**

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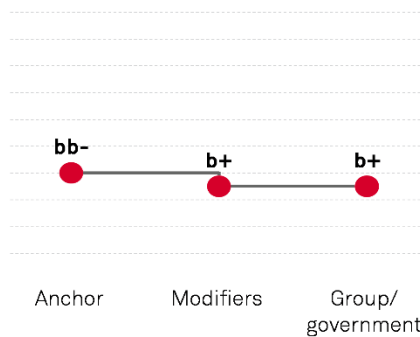
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Business risk: **Weak**



Financial risk: **Significant**



**B+/Stable/--**

**Issuer credit rating**

Brazil National Scale

**brAA/Stable/--**

## Credit Highlights

**Overview**

Key strengths

Key risks

## Update: Aura Minerals S.A.

A mid-tier gold miner with operations in three countries and new projects increasing output at lower cash cost.

Low, although moderately increasing, leverage allows for higher investments.

Adequate liquidity.

Exposure to the volatility in commodity metals prices.

History of operating setbacks, such as lower grades, adverse climate conditions, and social unrest.

Lower scale and diversification than those of other global miners.

Cash cost in the third quartile of the curve according to S&P Global Market Intelligence, but it could drop as new projects in Brazil come online.

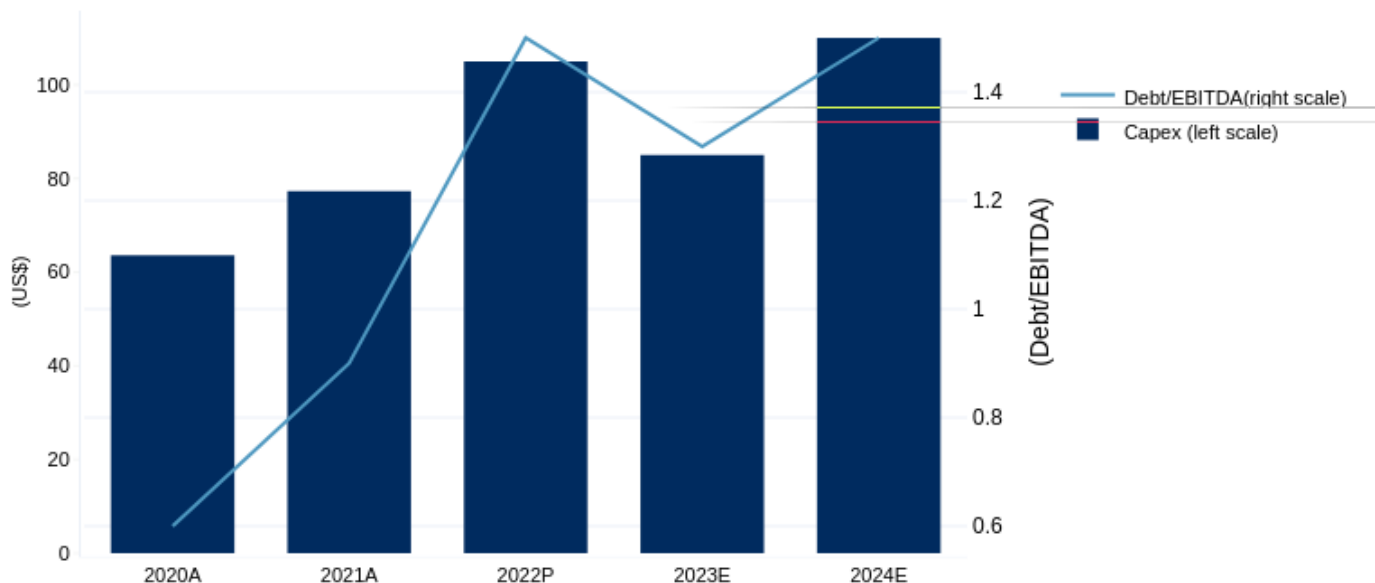
**Lower ore grades and adverse climate conditions have hindered output in 2022.** Aura's production in the first nine months of 2022 of 173,758 gold equivalent ounces (GEOs) was below 189,806 GEOs for the same period last year due to above-average rainfall and the mining of lower grade at San Andrés, mining contractor changes in San Andrés and EPP, and lower copper prices that reduced GEO output in Aranzazú. We expect production to recover in the fourth quarter thanks to higher-grade areas in EPP and San Andrés, although the latter continues to operate below historical levels. However, we expect consolidated production by year-end to reach slightly less than 250,000 GEOs, down from 269,000 GEOs in 2021 and our previous estimate of about 290,000 GEOs. The estimate excludes production of Gold Road, which was shut down at the end of 2021 and recently returned to its former owner because Aura was unable to successfully implement a turnaround. Further recovery at EPP and San Andrés and production from Almas, despite lower copper prices, should lead to about 280,000 GEOs next year.

**Inflationary pressures and lower output raised cash cost and reduced EBITDA.** Higher diesel, labor, and energy prices amid lower production have raised cash cost per GEO in the first nine months of 2022 to about \$923. Considering the recovery in production for the fourth quarter and easing of some cost pressures, we expect consolidated cash cost to fall to \$870-\$890 per GEO by year-end, compared with \$812 in 2021. This, coupled with lower output, will reduce EBITDA to \$130 million - \$140 million in 2022 from \$185 million in 2021, but we forecast it to recover to \$170 million - \$180 million in 2023 thanks to higher production and lower cash cost as the more efficient Almas project begins operations. For the next few years, we expect a further decrease in cash cost once the Borborema project starts operating, but EBITDA would remain unchanged because S&P Global Ratings' gold price deck slips to \$1,400 per oz in the long term.

**Slightly higher leverage as the company expands in the next few years, but liquidity to remain adequate.** Aura is increasing its expansion and exploration capital expenditures (capex). The focus is to extend the life of its mines through drilling and exploratory works and to complete the Almas project, which will start operating in the second quarter of 2023, as well as to develop the recently acquired Borborema project beginning in the second half of 2023, both of which are located in Brazil. We expect consolidated capex of about \$105 million in 2022, falling to \$85 million in 2023, and increasing to \$120 million in 2024 with higher investments in Borborema. Given lower EBITDA and the acquisition of the Borborema project for about \$55 million, Aura's adjusted gross leverage should reach 1.0x-1.5x by the end of 2022, and remain at about 1.5x in the next two years. We expect the company to maintain an adequate liquidity by contracting longer-term funding for new projects (Matupá's development could start by the end of 2024), and to reduce dividends to the policy minimum. The company stated that it's seeking M&A opportunities in the gold and copper sectors in the Americas, but we don't factor them in our base-case scenario.

**Chart 1**

Aura's leverage and capex evolution



A - Actual; P - Projected; E - Estimated. Source: S&P Global Ratings and Aura's financial statements

## Outlook

The stable outlook reflects that we expect Aura to gradually recover its production and cash cost while it develops new projects in Brazil in 2023 and 2024. However, the company will remain exposed to the industry's volatility and risks of operating setbacks that have hindered cash flows in 2022. We expect Aura to maintain adjusted gross debt to EBITDA of 1.5x-2.0x in 2022 and 1.0x-1.5x in 2023, while it continues to extend debt maturities to fund investments.

## Downside scenario

We could lower the ratings in the next 12-18 months if a drop in gold and copper prices or operating issues, such as a significant decrease in ore grades or adverse weather, amid high capex weaken credit metrics. In this scenario, the company would post consistently negative free operating cash flows (FOCF), raising adjusted gross debt to EBITDA above 3.0x, while it has a tighter liquidity cushion, with sources over uses of cash for the next 12 months significantly below 1.2x, squeezing liquidity.

## Upside scenario

A positive rating action in the next 12-18 months is unlikely, because it would require a longer track record of efficient performance even as Aura pursues growth while keeping low leverage. In this scenario, the company would continue reducing cash costs and generate positive FOCF despite high investments and lower metals prices. We would expect Aura to keep adjusted gross debt to EBITDA below 1.5x, funds from operations (FFO) to debt above 60%, and FOCF to debt above 40% while it maintains sources over uses of cash for the next 12 months comfortably above 1.2x.

## Our Base-Case Scenario

### Assumptions

- Brazil's average inflation of 9.6% in 2022, 5.1% in 2023, and 4.4% in 2024.
- Average exchange rate of R\$5.10 - R\$5.30 per \$1 over the next few years.
- Mexico's average inflation of 7.8% in 2022, 6.1% in 2023, and 4.1% in 2024.
- Honduras's average inflation of 12% in 2022, 6% 2023, and 4% in 2024
- U.S. average inflation of 8.3% in 2022, 3.7% in 2023, and 1.6% in 2024.
- Sales volumes of 240,000-250,000 GEOs in 2022, 270,000-280,000 GEOs in 2023, and 310,000-320,000 GEOs in 2024 as the company expands capacity.
- Gold prices close to \$1,790 per oz in 2022, \$1,600 per oz in 2023, and \$1,400 per oz afterwards.
- Copper prices of approximately \$8,691 per ton in 2022, \$8,000 per ton in 2023, and \$8,500 per ton afterwards.
- Capex of approximately \$105 million in 2022, \$85 million in 2023, and approximately \$110 million in 2024.
- Dividend distribution of 20% of EBITDA minus maintenance and exploration capex.

### Aura Minerals S.A.--Key Metrics\*

Mil. \$	2020a	2021a	2022e	2023f	2024f
Revenue	299.9	444.6	390-400	420-430	420-430
EBITDA	119.9	185.8	130-140	170-180	160-170
Funds from operations (FFO)	107.4	157	100-110	110-120	110-120
Capital expenditure	63.6	77.3	100-110	80-90	120-130
Free operating cash flow (FOCF)	30	57.5	(20)-(-10)	20-30	(20)-(-10)
Dividends	3	85.6	10-20	10-20	10-20
Debt to EBITDA (x)	0.6	0.9	1.5-2.0	1.0-1.5	1.0-1.5
FFO to debt (%)	152.5	99.3	40-50	40-50	40-50
FOCF to debt (%)	42.6	36.4	(10)-0	0-10	(10)-0

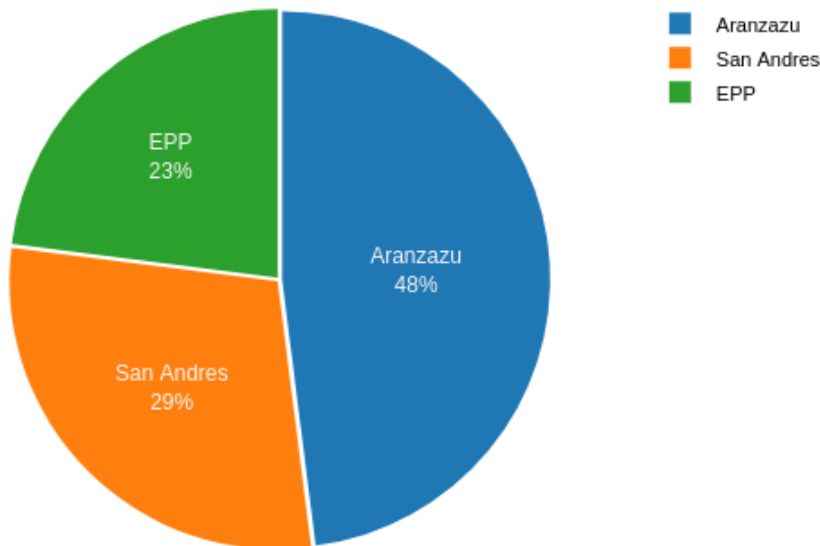
\*All figures adjusted by S&P Global Ratings. a--Actual. e--Estimate. f--Forecast.

## Company Description

Aura is a mining company that operates and develops gold and copper projects in the Americas. The company's producing assets include the mineral properties of the San Andres gold mine in Honduras, Ernesto/Pau-a-Pique complex in Brazil, and Aranzazu copper mine in Mexico. It's also developing two additional lower-cash-cost gold projects in Brazil, Almas and Borborema, and has one gold project in Colombia, Tolda Fría and two others in Brazil, Matupá and São Francisco. Aura's majority shareholder is Northwestern Enterprises Ltd. (not rated), with a stake of slightly more than 50% in the company. Northwestern Enterprises is owned by the chairman of Aura's board of directors, Paulo Carlos de Brito. The company is incorporated in the British Virgin Islands and publicly traded on the Canadian and Brazilian Stock Exchanges. Revenue totaled \$403 million and EBITDA \$152 million in the 12 months ended September 2022.

**Chart 2**

Revenue per mine end as of September 30, 2022.



Source: S&P Global Ratings and Aura's filings.

## Peer Comparison

**Aura Minerals Inc.--Peer Comparisons**

	<b>Aura Minerals Inc.</b>	<b>Iamgold Corp.</b>	<b>Eldorado Gold Corp.</b>	<b>New Gold Inc.</b>	<b>Hecla Mining Co.</b>
Foreign currency issuer credit rating	B+/Stable/--	CCC+/Negative/--	B+/Stable/--	B/Stable/--	B+/Stable/--
Local currency issuer credit rating	B+/Stable/--	CCC+/Negative/--	B+/Stable/--	B/Stable/--	B+/Stable/--
Period	Annual	Annual	Annual	Annual	Annual
Period ending	2021-12-31	2021-12-31	2021-12-31	2021-12-31	2021-12-31
Mil.	\$	\$	\$	\$	\$
Revenue	445	1,152	941	746	807
EBITDA	186	232	421	336	287
Funds from operations (FFO)	157	123	313	288	237
Interest	13	36	70	51	49
Cash interest paid	4	63	33	44	38
Operating cash flow (OCF)	128	254	333	268	223
Capital expenditure	77	625	282	235	109
Free operating cash flow (FOCF)	50	(371)	51	32	114
Discretionary cash flow (DCF)	(35)	(380)	51	32	89
Cash and short-term investments	161	553	481	541	210
Gross available cash	161	553	481	541	210
Debt	158	1,040	617	834	628
Equity	272	2,317	3,640	956	1,761
EBITDA margin (%)	41.8	20.1	44.7	45.0	35.6
Return on capital (%)	31.0	(3.5)	4.4	8.1	3.8
EBITDA interest coverage (x)	14.7	6.4	6.0	6.6	5.9
FFO cash interest coverage (x)	44.7	3.0	10.5	7.5	7.2
Debt/EBITDA (x)	0.9	4.5	1.5	2.5	2.2
FFO/debt (%)	99.3	11.8	50.6	34.5	37.7
OCF/debt (%)	80.7	24.4	54.0	32.1	35.6
FOCF/debt (%)	31.8	(35.6)	8.3	3.9	18.2
DCF/debt (%)	(22.4)	(36.5)	8.3	3.9	14.2

**Aura Minerals Inc.--Peer Comparisons**

	<b>Aura Minerals Inc.</b>	<b>Aris Mining Corp.</b>
Foreign currency issuer credit rating	B+/Stable/--	B+/Positive/--
Local currency issuer credit rating	B+/Stable/--	B+/Positive/--
Period	Annual	Annual
Period ending	2021-12-31	2021-12-31
Mil.	\$	\$
Revenue	445	383

**Aura Minerals Inc.--Peer Comparisons**

EBITDA	186	172
Funds from operations (FFO)	157	96
Interest	13	15
Cash interest paid	4	3
Operating cash flow (OCF)	128	68
Capital expenditure	77	63
Free operating cash flow (FOCF)	50	5
Discretionary cash flow (DCF)	(35)	(12)
Cash and short-term investments	161	324
Gross available cash	161	324
Debt	158	318
Equity	272	479
EBITDA margin (%)	41.8	44.9
Return on capital (%)	31.0	25.0
EBITDA interest coverage (x)	14.7	11.6
FFO cash interest coverage (x)	44.7	36.6
Debt/EBITDA (x)	0.9	1.9
FFO/debt (%)	99.3	30.1
OCF/debt (%)	80.7	21.5
FOCF/debt (%)	31.8	1.6
DCF/debt (%)	(22.4)	(3.8)

**Financial Risk****Aura Minerals Inc.--Financial Summary**

Period ending	Dec-31-2016	Dec-31-2017	Dec-31-2018	Dec-31-2019	Dec-31-2020	Dec-31-2021
Reporting period	2016a	2017a	2018a	2019a	2020a	2021a
Display currency (mil.)	\$	\$	\$	\$	\$	\$
Revenues	146	158	158	226	300	445
EBITDA	24	21	12	54	120	186
Funds from operations (FFO)	21	16	6	50	107	157
Interest expense	1	1	2	3	7	13
Cash interest paid	1	1	2	2	3	4
Operating cash flow (OCF)	13	5	10	34	87	128
Capital expenditure	2	9	32	30	64	77
Free operating cash flow (FOCF)	10	(4)	(22)	4	24	50

**Aura Minerals Inc.--Financial Summary**

Discretionary cash flow (DCF)	10	(4)	(22)	4	21	(35)
Cash and short-term investments	11	12	21	39	117	161
Gross available cash	11	12	21	39	117	161
Debt	20	26	31	43	70	158
Common equity	77	85	174	196	313	272
<b>Adjusted ratios</b>						
EBITDA margin (%)	16.5	13.5	7.8	23.9	40.0	41.8
Return on capital (%)	18.1	15.0	31.8	14.1	31.0	31.0
EBITDA interest coverage (x)	37.0	14.9	7.7	18.0	18.1	14.7
FFO cash interest coverage (x)	35.1	12.3	5.1	22.2	34.8	44.7
Debt/EBITDA (x)	0.8	1.2	2.5	0.8	0.6	0.9
FFO/debt (%)	104.7	62.2	21.0	116.4	152.5	99.3
OCF/debt (%)	63.9	19.6	31.7	78.6	123.8	80.7
FOCF/debt (%)	52.2	(14.2)	(71.2)	8.8	33.5	31.8
DCF/debt (%)	52.2	(14.2)	(71.2)	8.8	29.2	(22.4)

**Reconciliation Of Aura Minerals Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)**

Financial year	Shareholder		Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	Debt	Equity								
Dec-31-2021										
Company reported amounts	157	272	445	185	126	13	186	131	86	79
Cash taxes paid	-	-	-	-	-	-	(25)	-	-	-
Cash interest paid	-	-	-	-	-	-	(4)	-	-	-
Lease liabilities	1	-	-	-	-	-	-	-	-	-
Share-based compensation expense	-	-	-	1	-	-	-	-	-	-
Reclassification of interest and dividend cash flows	-	-	-	-	-	-	-	(4)	-	-
Capex: other	-	-	-	-	-	-	-	-	-	(2)
Total adjustments	1	-	-	1	-	-	(29)	(4)	-	(2)
<b>S&amp;P Global Ratings adjusted</b>	<b>Debt</b>	<b>Equity</b>	<b>Revenue</b>	<b>EBITDA</b>	<b>EBIT</b>	<b>Interest expense</b>	<b>Funds from Operations</b>	<b>Operating cash flow</b>	<b>Dividends</b>	<b>Capital expenditure</b>



## Reconciliation Of Aura Minerals Inc. Reported Amounts With S&P Global Adjusted Amounts (Mil. \$)

	Shareholder Debt	Shareholder Equity	Revenue	EBITDA	Operating income	Interest expense	S&PGR adjusted EBITDA	Operating cash flow	Dividends	Capital expenditure
	158	272	445	186	126	13	157	128	86	77

## Liquidity

We assess Aura's liquidity as adequate. Sources over uses of cash will be about 1.2x for the next 12 months. This is because its cash position--although lower after the acquisition of the Borborema project--and cash generation are more than enough to cover short-term debt and higher capex.

### Principal liquidity sources

- Cash and cash equivalents of about \$120.9 million as of Sept. 30, 2022; and
- Expected FFO of about \$110 million in the next 12 months.

### Principal liquidity uses

- Short-term debt of about \$84 million as of Sept. 30, 2022;
- Working capital outflows of about \$10 million in the next 12 months;
- Maintenance and expansion capex of about \$90 million in the next 12 months; and
- Dividend distribution of about \$15 million in the next 12 months.

## Covenant Analysis

### Requirements

The company has two covenants: consolidated net debt to EBITDA of less than 2.75x and an payment acceleration covenant of net debt to EBITDA of less than 1.0x for some bank debt of Mineração Aipoena, a Brazilian subsidiary.

### Compliance expectations

Aura has complied with both covenants and has headroom of more than 70%. Moreover, Aura can easily transfer cash to the Brazilian subsidiary in order to comply with the covenant.

## Environmental, Social, And Governance

### ESG Credit Indicators

E-1	E-2	<b>E-3</b>	E-4	E-5	S-1	S-2	<b>S-3</b>	S-4	S-5	G-1	G-2	<b>G-3</b>	G-4	G-5
- Waste and pollution - Physical risks					- Social capital - Health and safety - Human capital					- Risk management, culture, and oversight				

ESG credit indicators provide additional disclosure and transparency at the entity level and reflect S&P Global Ratings' opinion of the influence that environmental, social, and governance factors have on our credit rating analysis. They are not a sustainability rating or an S&P Global Ratings ESG Evaluation. The extent of the influence of these factors is reflected on an alphanumerical 1-5 scale where 1 = positive, 2 = neutral, 3 = moderately negative, 4 = negative, and 5 = very negative. For more information, see our commentary "ESG Credit Indicator Definitions And Applications," published Oct. 13, 2021.

## Update: Aura Minerals S.A.

Environmental, social, and governance factors are moderately negative considerations in our credit rating analysis of Aura. Extreme weather conditions, such as floods, could impact Aura's operations, partly offset by its operations across three countries in the Americas. The company uses downstream tailings dams, which are safer than the upstream ones, but still pose risks. However, the volume of tailings generated by gold mining is much lower than for other minerals, and Aura's dams are located far from populated areas. Aura also has exposure to social conflicts, such as the blockage of its mines in Honduras that shut down its operations for several days in July 2021, hampering production. In terms of governance factors, the company stopped investing in its U.S. subsidiary, Gold Road Mining Co., to limit losses, since it couldn't turn around the business it acquired in 2020. The subsidiary was only responsible for about 5% of volumes produced in 2021 and the move had a positive influence on overall credit metrics because Gold Road was a high-cost producer with debt. However, the abrupt change in its strategy only about 1.5 years after its acquisition and failure to pay its debt (which wasn't guaranteed by Aura or other subsidiaries) raise concerns about Aura's strategy.

## Issue Ratings--Recovery Analysis

### Key analytical factors

- The recovery rating of '3' on the company's unsecured debenture, which indicates a recovery of 50%-70% (65%) in our default scenario. We consider this debenture at the same ranking level as debts at the holding level, because Aura fully guarantees it. We consider this debenture as unsecured because the collateral consists of mining rights and there are no other real assets. The value and timing for sale of those mining rights would be uncertain and wouldn't cover the full amount of the debenture, in our scenario.
- We analyze Aura on a going-concern basis because we expect the company would be restructured following a default scenario, generating higher value for creditors.
- Our simulated scenario contemplates a deterioration in the company's operating performance, stemming from a sharp decline in prices for gold and copper.
- In our default scenario, the company's emergence EBITDA would be about \$80 million.
- We applied a 5.0x multiple to our projected emergence-level EBITDA, in line with our standard metals and mining upstream multiple.

### Simulated default assumptions

- Simulated year of default: 2026
- EBITDA at emergence: \$79 million
- Implied enterprise value (EV) multiple: 5.0x
- Estimated gross EV at emergence: \$394 million

### Simplified waterfall

- Net EV after 5% administrative costs: \$375 million
- Priority debt: \$154.5 million
- Unsecured debt: \$80 million
- Recovery expectation: 50%-70% for its unsecured debt

## Rating Component Scores

<b>Foreign currency issuer credit rating</b>	<b>B+/Stable/--</b>
<b>Local currency issuer credit rating</b>	<b>B+/Stable/--</b>
<b>Business risk</b>	<b>Weak</b>
Country risk	Moderately High
Industry risk	Moderately High
Competitive position	Weak
<b>Financial risk</b>	<b>Significant</b>
Cash flow/leverage	Significant
<b>Anchor</b>	<b>bb-</b>
Diversification/portfolio effect	Neutral (no impact)
Capital structure	Neutral (no impact)
Financial policy	Neutral (no impact)
Liquidity	Adequate (no impact)
Management and governance	Fair (no impact)
Comparable rating analysis	Negative (-1 notch)
<b>Stand-alone credit profile</b>	<b>b+</b>

## Related Criteria

- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Corporates | General: Corporate Methodology: Ratios And Adjustments, April 1, 2019
- General Criteria: Methodology For National And Regional Scale Credit Ratings, June 25, 2018
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Country Risk Assessment Methodology And Assumptions, Nov. 19, 2013
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Methodology: Management And Governance Credit Factors For Corporate Entities, Nov. 13, 2012
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

## Ratings Detail (as of November 29, 2022)\*

### Aura Minerals Inc.

Issuer Credit Rating	B+/Stable/--
<i>Brazil National Scale</i>	brAA/Stable/--

### Issuer Credit Ratings History

11-Oct-2021	B+/Stable/--
11-Oct-2021	<i>Brazil National Scale</i> brAA/Stable/--

Update: Aura Minerals S.A.

## Ratings Detail (as of November 29, 2022)\*

### Related Entities

**Aura Almas Mineracao S.A.**

Senior Unsecured

*Brazil National Scale*

brAA

\*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings credit ratings on the global scale are comparable across countries. S&P Global Ratings credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.

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