Research Update:

Aura Minerals Inc. Assigned 'B+' Global Scale And 'brAA' National Scale Issuer And Issue-Level Ratings; Outlook Stable

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Rating Action Overview

- Industry tailwinds and gradually increasing volumes are bolstering British Virgin Islands-based gold mining company Aura Minerals Inc.'s (Aura)'s cash generation, but the lack of a long-term track record of performance deliveries and a conservative financial approach, as well as potentially volatile cash flows, limit the ratings.
- High gold prices and the IPO in the Brazilian stock exchange in 2020, coupled with reduced cash cost and higher volumes, boosted Aura's cash position and lowered leverage, but the company will use part of the cash to ramp up existing operations, develop new projects, and for shareholders' remuneration.
- On Oct. 11, 2021, S&P Global Ratings assigned its 'B+' global scale and 'brAA' national scale issuer credit ratings to Aura. At the same time, we assigned a 'brAA' issue-level rating to the R$400 million debenture issued by Aura Almas Mineração S.A.
- The stable outlook reflects our view that Aura will continue to reduce cash costs as it develops the Almas and Matupá projects in the next few years, with increasing volumes and supportive metals prices keeping gross leverage below 1.0x.

Rating Action Rationale

Higher volatility of cash flows due to smaller scale than peers and high concentration in one commodity. Aura is a midtier mining company that operates four gold mines in Brazil, the U.S., Honduras, and Mexico--the latter also produces copper. However, the bulk of revenues are concentrated in gold (about three quarters) and it's smaller compared to peers such as Eldorado Gold Corp. (B+/Stable/--) and Iamgold Corp. (B+/Stable/--). Aura had a total output of 204,000 GEOs (gold equivalent ounces) in 2020 which we forecast to grow to 260,000-270,000 GEOs in 2021. Although we predict volumes to reach 400,000 GEOs by 2025 due to current investments, the company remains exposed to the volatility of commodity prices (especially gold) and to operating issues such as social conflicts, project delays, or weather hazards that could hamper production. A longer track record of operating performance would be key for a potential higher rating, together with larger volumes.

Improving cash cost and volumes in the next few years should offset potentially lower gold prices. Aura is investing to ramp up its U.S. operations, which currently drag down the company's average cash cost to close to $800 per ounce; in the lower range of the third quartile of the cost curve. As it improves the efficiency of current mines and develops new lower-cost and high ore grade projects in Brazil--Almas and Matupá--in the next three to four years, the company's cash cost could reach the second quartile. Higher output and efficiency and higher copper prices should offset the declining gold prices according to our gold price deck of $1,600 per ounce in 2022 and $1,400 per ounce afterward.

Limited track record of financial policies since control changed. Higher metals prices and output in the past few quarters have significantly boosted EBITDA, which coupled with Aura's IPO in Brazil in 2020, has resulted in very low gross leverage. We will monitor the management's approach toward investments and payouts (such as the extraordinary dividend distribution of $60 million in the second quarter of 2021) to assess a potential change in Aura's financial risk profile. This would also depend on its ability to generate free operating cash flow (FOCF) of $40 million-$50 million yearly even with gold prices declining $100 to $200 per ounce.

Adequate liquidity. Aura has issued a R$400 million (about $77 million) debenture in its Brazilian subsidiary to fund the development of Almas and Matupá projects, as well as prepay some bilateral debt. This further extends average debt maturities, which with its solid cash position provides a liquidity cushion against the industry's potential volatility.

Outlook

The stable outlook reflects our view that we expect Aura to continue increasing its production in the next two years as it develops new projects in Brazil and ramps up the U.S. operations, gradually reducing its cash cost. On the other hand, it continues to be exposed to the industry's volatility and operating setbacks that could hinder cash flow. We expect the company to maintain adjusted gross debt to EBITDA below 1.0x while it strengthens liquidity by issuing longer-term debt to fund its investment plan.

Downside scenario

We could lower the ratings in the next 12 to 18 months if a drop in gold prices or operating issues--such as a significant decrease in ore grades or weather events amid higher capital expenditure (capex) needs--hit credit metrics. In this scenario, the company would post consistently negative FOCF and a tighter liquidity cushion, with sources over uses of cash for the next 12 months significantly below 1.2x, heightening liquidity pressures.

Upside scenario

A positive rating action in the next 12-18 months is unlikely, because it would stem from a longer track record of efficient business performance even as it pursues growth, and while it keeps its low leverage. In this scenario, the company would maintain a record of improving cash costs and positive FOCF, even amid high investments and lower metals prices. We would expect the company 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.

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 San Andres gold mine in Honduras, Ernesto/Pau-a-Pique complex in Brazil, Aranzazu copper mine in Mexico, and Gold Road mine in Arizona. It is also developing two additional lower-cash-cost gold projects in Brazil, Almas and Matupá, and has one gold project in Colombia, Tolda Fría. In addition, the company is conducting an exploration program at its São Francisco gold mine in Brazil to determine if a restart of the mine is feasible. The company posted net revenues of about $418.1 million in the last 12 months as of June 2021, and EBITDA of about $187.7 million. In fiscal 2021, we expect Aura to reach net revenues of nearly $450 million, EBITDA of about $200 million, and volumes of 260,000-270,000 GEOs. With the development of the new mines in the next few years, we expect it to reach over 400,000 GEOs by 2025. Aura's majority shareholder is Northwestern Enterprises Ltd. (not rated), with a stake of slightly over 50% of the company's shares. Northwestern Enterprises is owned by the chairman of the board of directors of Aura, Paulo Carlos de Brito. The company is incorporated in the British Virgin Islands and publicly traded on both the Canadian and Brazilian Stock Exchanges.

Our Base-Case Scenario

Assumptions

- Brazil's GDP to grow 4.7% in 2021 and 2.1% in 2022.
- Brazil's average inflation of 7.0% in 2021 and 4.4% in 2022.
- Average exchange rate of R$5.30-R$5.50 per $1 over the next few years.
- Mexico GDP to grow 5.8% in 2021 and 2.9% in 2022.
- Mexico's average inflation of 5.0% in 2021 and 3.5% in 2022.
- Honduras's GDP to grow 5.0% in 2021 and 3.5% in 2022.
- Honduras's average inflation of 4.5% in 2021 and 2022.
- U.S.'s GDP to grow 6.7% in 2021 and 3.7% in 2022.
- U.S.'s average inflation of 3.6% in 2021 and 2.3% in 2022.
- Sales volumes of 260,000-270,000 GEOs in 2021, 310,000-320,000 GEOs in 2022, and 350,000 GEOs in 2023 as the company expands capacity.
- Gold prices of $1,800 per oz in 2021, $1,600 per oz in 2022, and $1,400 per oz afterward.
- Copper prices of approximately $9,250 per ton in 2021, $8,500 per ton in 2022, and $8,000 per ton afterward.
- Capex of approximately $90 million in 2021, $115 million in 2022, and approximately $70 million in 2023.

- Dividend distribution of 20% of EBITDA minus sustaining and exploration capex.

Key metrics

- EBITDA of about $200 million in 2021 and $220 million in 2022, compared with $119.9 million in 2020.
- EBITDA margins between 44%-46% in the next two years, versus 40% in 2020.
- Adjusted gross debt to EBITDA between 0.5x-0.7x in the next two years, compared with 0.6x in 2020.
- FOCF to debt of about 35%-40% in the next two years versus 38% in 2020.

Liquidity

We assess Aura's liquidity as adequate. Sources over uses of cash for the next 12 months exceed 1.5x given its solid cash position and cash generation. Also, the company has issued new debentures worth R$400 million (approximately $77 million) that have significantly increased its liquidity cushion. The company intends to use those proceeds to finance the Almas project and to pay some bilateral debt in advance.

Principal liquidity sources:

- Cash and cash equivalents of about $98 million as of June 30, 2021;
- Expected FFO of about $165 million in the next 12 months; and
- New debenture issuance amounting to R$400 million (about $77 million).

Principal liquidity uses:

- Short-term debt of about $40 million as of June 30, 2021;
- Working capital outflows of about $20 million in the next 12 months;
- Maintenance and committed expansion capex of about $100 million in the next 12 months; and
- Dividend distribution of about $20 million in the next 12 months.

Covenants

The company complies with its net debt to EBITDA of less than 2.75x covenant with significant headroom.

In addition, Aura has an acceleration covenant of net debt to EBITDA less than 1.0x for some bank debt in its subsidiary in Brazil and has complied with it successfully--Aura can easily transfer cash to this subsidiary if needed.

Environmental, Social, And Governance

Environmental and social factors are moderately negative considerations for the mining industry. Extreme weather conditions, such as floods, could hamper Aura's operations, which are in four countries in the Americas, partly mitigating those effects. The company also uses downstream tailings dams, which are safer than the upstream ones, but still pose risks--although gold mining generates much less tailings than other minerals, and the dams are located far from populated areas. Aura also has exposure to social conflicts, such as the illegal blockage in Honduras that shut down its operations for several days this year, hampering production.

Issue Ratings - Recovery Analysis

Key analytical factors

- We are assigning a 'brAA' national scale issue-level rating to the first debenture issuance of Aura Almas Mineração S.A., a fully-owned subsidiary of Aura Minerals Inc., with a recovery rating of '3' (65%).
- We consider this debenture at the same ranking level as the debts at the holding, because Aura fully guarantees it.
- We consider this debenture as unsecured since the collateral consists of mining rights and there are no other real assets. The value and timing for the sale of those mining rights would be uncertain and would likely not cover the full amount of the debentures, in our scenario.
- In our simulated default scenario, we analyze Aura on a going concern basis, because we expect the company would be restructured, generating higher value for creditors.
- Our simulated scenario contemplates a deterioration in the company's operating performance stemming from a severe decline in prices for gold and copper and lower ore grades.
- In our default scenario, the company's emergence EBITDA would be about $61 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: 2025
- EBITDA at emergence: $61 million
- Implied enterprise value (EV) multiple: 5.0x
- Estimated gross EV at emergence: $306 million

Simplified waterfall

- Net EV after 5% administrative costs: $291 million
- Priority debt at operating subsidiaries: $93 million

- Unsecured debt: $82 million
- Recovery expectation: 50%-70% for its unsecured debt (rounded 65%)

Ratings Score Snapshot

Issuer Credit Rating:

- Global scale: B+/Stable/--
- National scale: brAA/Stable/--

Business risk:

- Country risk: Moderately high risk
- Industry risk: Moderately high risk
- Competitive position: Weak

Financial risk:

- Cash flow/Leverage: Significant

Anchor: bb-

Modifiers:

- Diversification/Portfolio effect: Neutral
- Capital structure: Neutral
- Financial policy: Neutral
- Liquidity: Adequate
- Management and governance: Fair
- Comparable rating analysis: Negative

Stand-alone credit profile: 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: Recovery Rating Criteria For Speculative-Grade Corporate Issuers, Dec. 7, 2016
- General Criteria: Guarantee Criteria, Oct. 21, 2016
- Criteria | Corporates | General: Methodology And Assumptions: Liquidity Descriptors For Global Corporate Issuers, Dec. 16, 2014
- General Criteria: Methodology: Industry Risk, Nov. 19, 2013

- Criteria | Corporates | General: Corporate Methodology, Nov. 19, 2013
- General Criteria: Country Risk Assessment Methodology And Assumptions, 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 List

New Rating	
Aura Minerals Inc.	
Issuer Credit Rating	B+/Stable/--
Brazil National Scale	brAA/Stable/--
New Rating	
Aura Almas Mineracao S.A.	
Senior Unsecured	brAA
Recovery Rating	3(65%)

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.