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Sotkamo Silver

Self-funded operational recovery

Sotkamo Silver's Q2 results provide further evidence that its operational reset is gaining traction. Record net sales of SEK198m and EBITDA of SEK86m were supported by higher volumes and strong metal prices, despite a lower silver grade. Operating cash flow of SEK94m funded accelerated mine development and increased cash to SEK141m. With grades expected to recover in H2 and the balance sheet now able to support self-funded growth, the double-digit valuation discount to peers suggests that the market does not fully reflect the improving operating profile.

Throughput gains support H2 production growth

Mill feed increased by 33% q-o-q and 36% y-o-y to 148kt, lifting silver production by 8% sequentially to 218koz despite the head grade declining to 56g/t. H1 silver production of 419koz represented 35–47% of unchanged FY26 guidance of 0.9–1.2Moz. Management expects grades to increase to 80–90g/t as mining moves towards deeper underground areas. Maintaining throughput close to the Q2 level while delivering the planned grade recovery would move production towards the middle of guidance and establish a stronger operating base for the medium-term target of 1.4Moz of annual silver production.

Cash generation funds accelerated development

Operating cash flow reached SEK94m in Q2 and SEK170m in H1, compared with capex of SEK22m and SEK37m, respectively. Cash increased by SEK127m from year-end to SEK141m, while net debt fell to c SEK53m and net debt/EBITDA declined to 0.2x. This will allow Sotkamo to accelerate underground development, infill drilling and exploration without relying on additional financing. The post-period conversion of €2.0m of Business Finland debt into a grant further strengthens the balance sheet as the company prepares additional mining areas and advances work to extend the resource base and mine life.

Valuation: Low multiples despite growth momentum

The shares trade on consensus FY26e EV/EBITDA and P/E multiples of 3.5x and 4.4x, respectively, based on estimates from a single analyst, representing double-digit discounts to independent primary silver producers. Silver has recently recovered to c US$64/oz, while consensus expectations remain supportive at US $72.0/oz in 2026, declining to US$68.5/oz in 2027 and US$60.0/oz in 2028. Higher production and head grades, together with exploration work aimed at expanding the mineral resource base and extending the mine life, should support Sotkamo's earnings growth and provide scope for the valuation discount to narrow.

Consensus estimates

Year end	Revenue (SEKm)	EBITDA (SEKm)	PBT (SEKm)	EPS (SEK)	P/E (x)
12/24	412.2	109.1	(2.3)	(0.06)	N/A
12/25	393.0	80.0	(53.0)	(0.16)	N/A
12/26e	816.0	474.0	364.0	1.08	4.4
12/27e	807.0	453.0	401.0	1.00	4.7

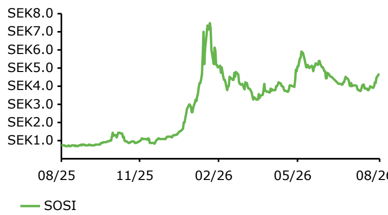
Source: Bloomberg. Note: Consensus expectations are based on a single analyst.

Metals and mining

11 August 2026

Price	**SEK4.72**
Market cap	**SEK1,607m**

Share price performance



Share details

Code	SOSI
Listing	NGM
Shares in issue	340.5m
Net cash/(debt) at H126	SEK(52.5)m

Business description

Sotkamo Silver is a mining and ore exploration company that develops and utilises mineral deposits in the Kainuu region in Finland.

Bull points

- Grade, volume and resource growth.
- Strong free cash flow generation.
- Valuation discount to silver peers.

Bear points

- High sensitivity to the silver price.
- Production ramp-up execution risk.
- Single-mine exposure.

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Q226: Record sales and strong cash conversion

Sotkamo's net sales increased by 6% q-o-q to a record SEK198m as higher volumes offset a lower silver price versus Q126. The Q226 silver price averaged US$73.1/oz, compared with an H126 average of US$78.8/oz, and the quarter-end price of US$58.8/oz. Silver hedging contributed SEK5m to quarterly revenue, with the company's one-month hedging and settlement horizon resulting in a limited delay between spot-price movements and reported revenue.

EBITDA declined by 13% q-o-q to SEK86m and the margin narrowed from 53% to 43%. This reflected the lower silver price, increased underground mining activity and a slight rise in unit costs. Supplies and services increased to SEK88m from approximately SEK66m in Q126, partly due to drift development and stope preparation undertaken to support future production. Despite the sequential reduction, the Q226 EBITDA margin remained well above the company's medium-term target of more than 30%.

EBIT was SEK73m, while net income reached SEK48m, equivalent to SEK0.14 per share. H126 earnings below the operating line were affected by non-cash convertible accounting, with financial expenses of SEK90m including a SEK78m adverse fair-value movement in conversion option liabilities. This had no corresponding effect on the company's strong cash generation: operating cash flow reached SEK94m in Q226 and SEK170m in H126, with capex outflows of SEK22m and SEK37m, respectively. Cash increased by SEK66m during the quarter and by SEK127m from year-end to SEK141m, while net debt fell to c SEK53m from c SEK200m at end-2025 and net debt/EBITDA declined to 0.2x.

Exhibit 1: Summary of Q226 results

	Q226	Q126	Q225	Q-o-q	Y-o-y
Financial performance, SEKm					
Net sales	198	186	79	6%	151%
EBITDA	86	99	1	-13%	n.m.
EBITDA margin	43%	53%	2%	(10)pp	41pp
EBIT	73	89	(16)	-18%	n.m.
Operating cash flow	94	76	n.d.	24%	n.d.
Capital expenditure	22	15	16	47%	38%
Cash at period end	141	75	1	88%	n.m.
Net debt/EBITDA	0.2x	0.7x	3.4x		
Operational performance					
Mill feed, kt	148	111	109	33%	36%
Silver head grade, g/t	56	70	65	-20%	-14%
Silver production, koz	218	201	187	8%	16%
Gold production, oz	996	783	417	27%	139%
Lead production, tonnes	172	145	144	19%	19%
Zinc production, tonnes	345	307	370	12%	-7%

Source: Sotkamo Silver

Higher throughput lifts silver production and reduces sequential unit costs

Mill feed increased by 33% q-o-q and 36% y-o-y to 148kt, supporting silver production of 218koz, up 8% from 201koz in Q126 and 16% from 187koz in Q225. H1 silver production reached 419koz, 18% above the prior-year period. Higher throughput more than offset the decline in the silver head grade to 56g/t from 70g/t in Q126 and 65g/t a year earlier. The lower grade reflected the use of open-pit ore to supplement underground production while mine development was accelerated, as well as the processing of stopes with a higher contribution from gold.

Gold production increased to 996oz from 783oz in Q126 and 417oz in Q225, taking H126 output to 1,779oz, more than double the prior-year level. Lead production increased to 172t from 145t in Q126 and 144t a year earlier. Zinc output recovered to 345t from 307t in Q126, although it remained below the 370t produced in Q225.

In the absence of disclosed realised prices and revenue for gold, lead and zinc, a conventional silver cash-cost calculation after by-product credits is not possible. We therefore assess unit-cost development using reported cash operating expenses per tonne milled. Cash operating expenses increased by 27% q-o-q to SEK119m, below the 33% increase in throughput, reducing the implied cost by 5% to approximately SEK803/t from SEK842/t in Q126. This remained 12% above the SEK714/t recorded in Q225, consistent with higher underground mining costs and a slight increase in unit costs. Part of the expenditure related to drift development and stope preparation intended to support future production.

The higher Q226 throughput provides a stronger production base for H226, when silver grades are expected to improve as mining shifts towards deeper underground areas. This should support a further increase in silver output during the remainder of the year.

Exhibit 2: Sotkamo unit cost performance

	Q226	Q126	Q225	Q-o-q	Y-o-y
Cash operating expenses, SEKm	119	94	78	27%	53%
Mill feed, kt	148	111	109	33%	36%
Cash operating expenses, SEK/t	**803**	**842**	**714**	**-5%**	**12%**
EBITDA-implied operating cost, SEK/t*	758	785	711	-3%	7%

Source: Sotkamo Silver. Note: *Net sales less EBITDA, divided by tonnes milled; therefore adjusted for inventory movements and other operating income.

Guidance maintained as focus shifts to grade recovery and production growth

Sotkamo maintained its revised 2026 guidance for silver production of 0.9–1.2Moz, EBITDA above €33m and year-end net debt/EBITDA below 0.1x. H126 silver production of 419koz represented 35–47% of the full-year range, while consensus FY26e revenue of SEK816m and EBITDA of SEK474m imply increases of 108% and 493% from FY25, respectively, reflecting the combined effect of stronger metal prices and the anticipated operational recovery. H126 EBITDA of SEK185m represents 39% of the full-year forecast, leaving a material H226 step-up that should be supported by higher grades and production.

Management expects silver grades to increase to 80–90g/t from 56g/t in Q226 as mining moves towards deeper underground areas. This should be supported by the completed contractor ramp-up, accelerated mine development and preparation of additional mining areas. Maintaining throughput close to the Q2 level while delivering the planned grade recovery would move production towards the middle of guidance and provide a stronger operating base for the company's medium-term target of 1.4Moz of annual silver production. Infill drilling to 700m and further investigation of the West mineralisation offer further potential for resource conversion, new mining areas and mine-life extension.

The silver price has recovered to c US$64/oz from US$58.8/oz at the end of Q226, although it remains below the Q226 average of US$73.1/oz. The company estimates that each US$1/oz movement changes annual revenue by approximately SEK9m. Higher grades and production should therefore provide an important operational offset if silver prices remain below H126 levels. The broader industry backdrop also remains supportive, with the global silver market expected to record a sixth consecutive annual deficit in 2026, according to the Silver Institute. The balance sheet target appears increasingly achievable following the H1 cash build, strong free cash flow and subsequent conversion of €2.0m of Business Finland debt into a grant. Overall, Sotkamo appears to be moving from operational stabilisation towards self-funded production growth, resource expansion and mine-life extension.

Valuation: Low multiples despite strong operational momentum

The shares trade on consensus FY26e EV/EBITDA and P/E multiples of 3.5x and 4.4x, respectively, based on estimates from a single analyst, representing double-digit discounts to independent primary silver producers. The modest expansion in FY27e multiples reflects a slight decline in consensus EBITDA and EPS, consistent with lower silver price assumptions being partly offset by higher grades and production. Consensus silver price forecasts remain supportive at US$72.0/oz in 2026, declining to US$68.5/oz in 2027 and US$60.0/oz in 2028. The expected production ramp-up and grade recovery, together with exploration work aimed at expanding the mineral resource base and extending the mine life, should support earnings as silver prices moderate. Sustained delivery at higher production levels would also provide scope for the valuation discount to narrow.

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