

# Panoramic Resources<sup>1,4,7</sup>

**BUY**

PAN-ASX

6 February 2017

Last: **A\$0.24**  
▲ Target: **A\$0.65**

## Impressive Savannah Feasibility Study adds significant value

### The results of the Feasibility Study were substantially better than expected

We had previously modelled an 8-year mine life instead of the 10 years in the study. Overall annualized assumptions were largely in line with our previous expectations but nickel grades and processing recoveries are much improved. The net impact of this is an increase in our Savannah valuation from A\$108m to A\$203m and improved AISC from our assumed A\$6.50/lb to A\$6.00/lb in the study.

### Mine life and grades underpinned by improved reserve

The ore reserve of 8.2mt @ 1.37% Ni, 0.64% Cu and 0.09% Co for 112,600t nickel, 52,400t copper and 7,600t cobalt was a significant beat on our modeled mining inventory of 7mt @ 1.26% Ni, 0.64% Cu & 0.09% Co. The larger reserve enabled a longer mine life. The annual production rate is reduced slightly on our estimates. However, significantly better nickel reserve grades compensate for the lower ore tonnes and actually result in a slightly higher annual output in terms of nickel metal tonnes. The lower throughput at higher grades is also favourable for operating costs. The grade of copper and cobalt are largely unchanged and consequently the overall production of copper and cobalt metal on an annualized basis is reduced slightly.

### Initial capex lower than expected but LOM capex higher

Initial capital expenditure is lower than anticipated and largely covers the cost of reestablishing the existing Savannah operations. Life of mine capex includes the cost of eight months of lateral development to Savannah North (A\$12m) and establishing primary ventilation (A\$6.3m). Life of mine capital expenditure is estimated as A\$234m, which is considerably more than we had estimated (S&Pe: A\$148m) partly due to the extra 2 years mine life. Sustaining capital (included in LOM Capex) is estimated at A\$20m pa (S&Pe: A\$12m). Despite slightly higher sustaining capital estimates, AISC are still significantly lower than we had estimated.

### Lower cash costs through lower unit costs, higher grades and recoveries

When lower unit costs are combined with the improved nickel grades and recoveries the cash cost per tonne of nickel metal improve significantly.

### Maintain BUY rating and lift price target to A\$0.65/share

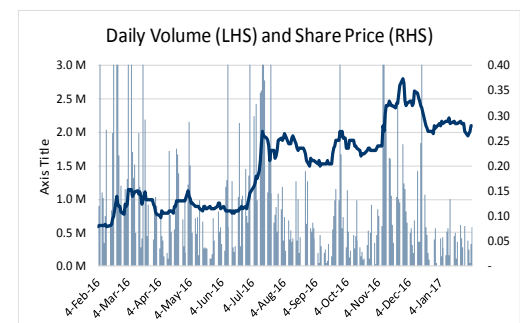
Our SOTP valuation based price target has lifted 17c to reflect the considerable improvements in our valuation of Savannah now better recoveries, better grades, longer mine life, lower capex and lower costs are modelled.

	Last	Current
Rating	BUY	BUY
Target (A\$)	\$0.48	\$0.65
Nickel Production 2018E (kt Eq)	-	-
Nickel Production 2019E (kt Eq)	7.15	7.20
Nickel Production 2020E (kt Eq)	15.14	15.21

Share Data	
Share o/s (mm, basic/f.d. itm)	428.6
52-week high/low (A\$)	0.37/0.08
52-week average daily volume (,000s)	1,007.1
Market cap (A\$m)	\$111.43
EV (A\$m)	\$97.73
Net debt (A\$m)	-\$13.70
Projected return	151%
NAV0%/share	\$0.72
NAV10%/share	\$0.65
P/NAV0%	0.36
P/NAV10%	0.40
NAV10%/share at spot	\$0.00

Financial Data			
YE June 30	FY18E	FY19E	FY20E
Nickel production (Eq. kt)	-	7.20	15.21
Cash costs (A\$/t)	\$0	\$12,526	\$12,398
Capex (A\$m)	\$0	-\$40	-\$39
Free cashflow (A\$m)	\$0.0	\$0.0	-\$7.9
EPS	-\$0.01	\$0.09	\$0.20
CFPS	-\$0.01	\$0.11	\$0.28
P/E	NM	NM	1.3
P/CF	NM	NM	NM
EV/EBITDA	NM	2.1	0.8

All figures in A\$ unless otherwise noted



Source: ASX Warning: Past performance is not indicative of future performance

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### Savannah study underpins improved valuation

The results of the Feasibility Study were substantially better than expected.

The key differences between the company Feasibility Study and our previously modelled assumptions are outlined in the table below. The net impact of this is an increase in our Savannah valuation from A\$108m to A\$203m and improved AISC from our assumed A\$6.50/lb to A\$6.00/lb in the study. We had previously modelled an 8-year mine life instead of the 10 years in the study. Overall annualized assumptions were largely in line with our previous expectations but nickel grades and processing recoveries are much improved.

*Net impact of this is an increase in our Savannah valuation from A\$108m to A\$203m.*

**Figure 1. Key difference between our previous assumptions and expansion study**

Assumption	Expansion Project Study	Our previous Assumption
Ore milled (Mtpa)	0.80	0.88
LOM Ore Processed (Mt)	8.25	7.04
Head grade (% Ni)	1.38	1.26
Head grade (% Cu)	0.65	0.64
Head grade (% Co)	0.09	0.09
Recovery Ni (%)	87	86
Recovery Cu (%)	96	95
Recovery Co (%)	90	94
Life of Mine	10	8
Ni Metal Recovered (ktpa)	9700	9500
Cu Metal Recovered (ktpa)	5000	5300
Co Metal Recovered (ktpa)	670	744
Mining cost (A\$/t)	58	65
Processing cost (A\$/t)	22	27
G &A cost (A\$/t)	16	24
Initial Capital (A\$m)	20	50
LOM capital (A\$m)	234	148
Sustaining capital A\$m/tpa)	20	12
AISC (A\$/lb)	6.00	6.50

Source: Somers research.

### Slightly lower throughput and longer mine life

We had previously modelled shorter mine life and a mining inventory of 7mt. The larger than expected reserve estimate enables greater life of mine production and a mine life of 10 years. The annual production rate is reduced slightly on our estimates.

### Improved nickel grade and tonnage in reserves

However, significantly better nickel reserve grades compensate for the lower ore tonnes and actually result in a slightly higher annual output in terms of nickel metal tonnes. The lower throughput at higher grades is also favourable for operating costs. The grade of copper and

cobalt are largely unchanged and consequently the overall production of copper and cobalt metal on an annualized basis is reduced slightly.

**Better recoveries**

*High nickel and copper recoveries*

Another big improvement on expectations is the improved nickel and copper recoveries. This results in more metal processed at lower costs per metal tonne. Cobalt recoveries are down on expectations resulting in lower than anticipated cobalt credits.

**Improved mining and processing unit costs**

*Unit costs for mining and processing are better than expected*

Unit costs for mining, processing and admin are better than expected. The mining method remains the same, stoping widths may in some cases be slightly larger, but geotechnical considerations and the shallow dip in parts of the upper mineralized zone will likely add to costs on a like for like basis. In addition, the processing rate is slightly lower than we had previously modelled. Therefore, we assume these lower costs merely reflect the favourable cost environment in Australia and the company's study on cost improvements since Savannah was placed on care and maintenance. When combined with the improved nickel grades and recoveries the cash costs improve significantly.

**Concentrate grades largely unchanged**

We had hoped ongoing studies would result in a high-grade nickel concentrate. Nickel grades of 8% are relatively low for concentrate; however, the copper, cobalt and clean nature of the concentrate still make it an attractive concentrate. Studies on improved concentrate grades are ongoing and represent potential upside on the study. Offtake is in place until April 2020.

**Initial capex lower than expected but LOM capex higher**

*Initial capex is lower than we had anticipated*

Initial capital expenditure is lower than anticipated and largely covers the cost of reestablishing the existing Savannah operations. Life of mine capex includes the cost of eight months of lateral development to Savannah North (A\$12m) and establishing primary ventilation (A\$6.3m). Life of mine capital expenditure is estimated as A\$234m, this is considerably more than we had estimated (S&Pe: A\$148m) partly due to the extra 2 years mine life.

Sustaining capital (included in LOM Capex) is estimated at A\$20m pa (S&Pe: A\$12m).

Despite slightly higher sustaining capital estimates, AISC are still significantly lower than we had estimated at A\$6/lb (S&Pe A\$6.50/lb) due to the significantly lower cash operating costs from lower unit costs, better grades and better recoveries.

**Funding from nickel pre-pay**

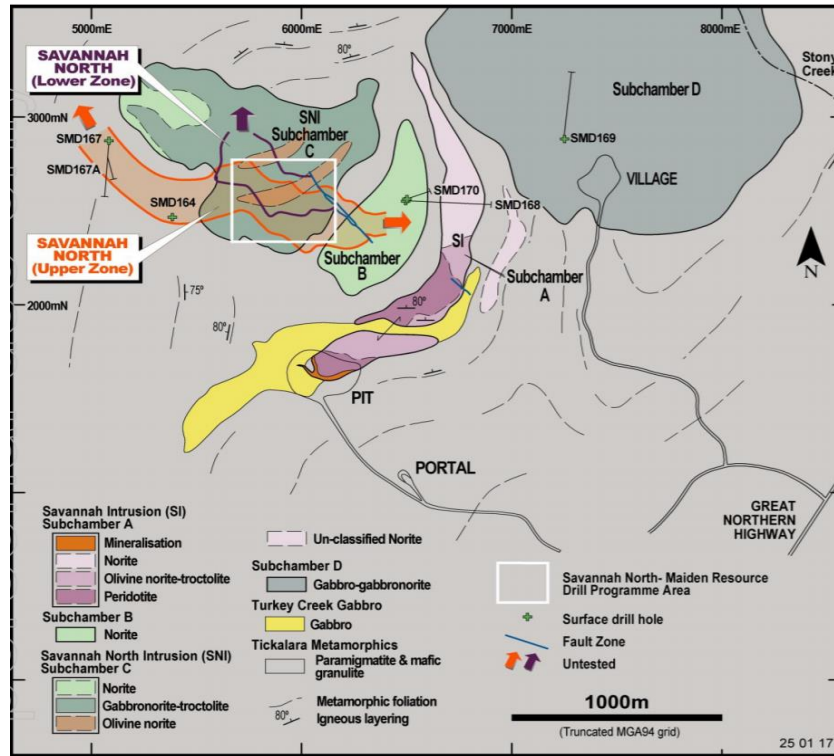
We assume a small amount of additional funding is required to restart operations and establish Savannah North infrastructure. In our model we assume a A\$13m nickel prepay facility is arranged with the offtaker and repaid in nickel metal over three years.

**Upside**

We see significant upside potential from exploration work being carried out to the west of Savannah North. Here a significant electromagnetic anomaly may well represent down dip mineralisation for up to 1km away from the current reserve.

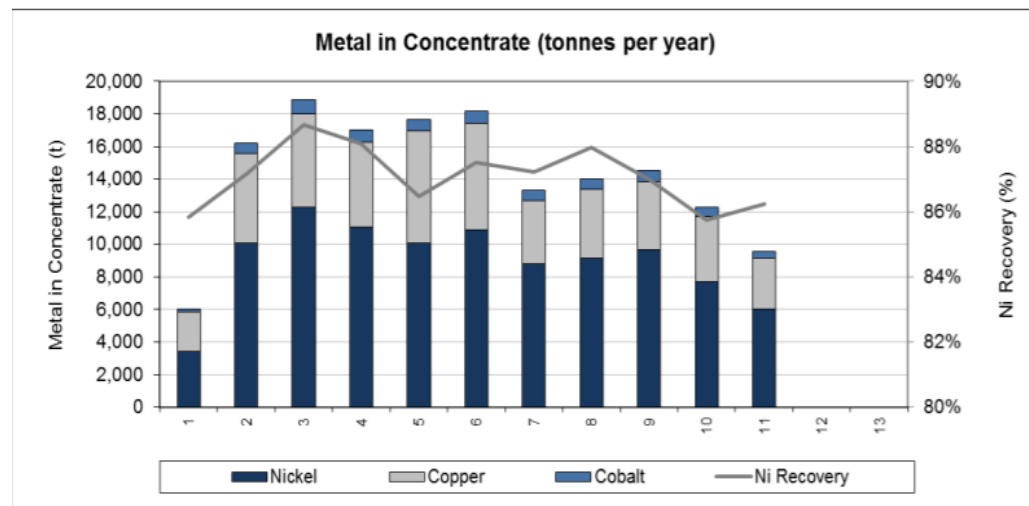
Other sources of upside include the benefits from marketing separate Ni-Co and Cu concentrates or from ongoing work to improve concentrate nickel grades.

Figure 2. Savannah Geology and mineralisation



Source: PAN

Figure 3. Savannah metal production profile



Source: PAN

Our Savannah valuation  
is A\$203m

## Valuation - Savannah Project

Our mine life runs from mid FY19 to mid FY29 (10 years) and reflects reserve published.

Figure 4. Savannah assumed mine production plan

Mine Plan	FY18	FY19	FY20	FY21	FY22
Total Plant Feed (Kt)	-	600	800	800	800
Average Head Grade (Ni%)	-	1.38	1.38	1.38	1.38
Average Head Grade (Cu%)	-	0.65	0.65	0.65	0.65
Average Head Grade (Co%)	-	0.09	0.09	0.09	0.09
Nickel Recovery (%)	-	87.0	87.0	87.0	87.0
Copper Recovery (%)	-	96.0	96.0	96.0	96.0
Cobalt Recovery (%)	-	90.0	90.0	90.0	90.0
Nickel Produced (t)	-	7,204	9,605	9,605	9,605
Copper Produced (t)	-	3,705	6,175	6,175	6,175
Cobalt Produced (t)	-	486	648	648	648

Source: Somers & Partners

We have assumed production efficiency and costs based on the company scoping study but applied our own degree of conservatism to the numbers.

Figure 5. Savannah modelling assumptions

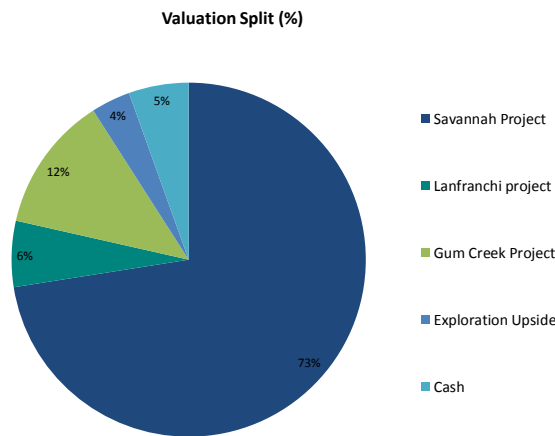
Assumption	Life of Mine
Mining Cost (A\$/t ore)	58.00
Processing Cost (A\$/t ore)	22.00
G&A Cost (A\$/t ore)	16.00
Transport/ship handling Cost (A\$/t Conc)	40.00
Initial Capex (A\$m)	17.80
Sustaining Capex (A\$m pa)	20.00
Exploration (A\$m pa)	3.00
Debt Funding (A\$m)	13.30
Equity Funding (A\$m)	-
Government Royalty - Nickel (%)	2.5
Government Royalty – Copper, Cobalt (%)	2.5
LOM cash cost (A\$/t Ni)	8,000
LOM All in sustaining cost (A\$/t Ni)	12,209
LOM Average Payable Nickel Price (A\$/t)	18,244
A\$/US\$ (Long term)	0.75

Source: Somers & Partners

We value the Savannah project on a post-tax basis, calculating an NPV<sub>10%</sub> of A\$290m. We have risk discounted our NAV by 30% to reflect technical and funding risk. Our 0.7xNAV valuation for PAN's 100% interest in the project is A\$203m or 47c/share.

Ticker	PAN:ASX	Financial Yr. End	30 June
Recommendation	<b>BUY</b>	Shares on issue (m)	428.6
Target Share price (A\$)	0.65	Market Cap (A\$m)	111.4
Current Share price (A\$)	0.26	Enterprise Value (A\$m)	97.7
Implied Return (%)	151%	Cash (A\$m)	15.3
P/NAV (x)	0.40	Debt(A\$m)	1.6

Valuation					Financial Statements (A\$m)				
Asset	Discount rate	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)	ASM	FY2018	FY2019	FY2020	FY2021
Savannah Project	10%	0.70 X	\$202.7	\$0.47	<b>Profit &amp; Loss</b>				
Lanfranchi project	10%	0.70 X	\$16.9	\$0.04	Revenue	\$0.0	\$115.6	\$251.0	\$231.1
Gum Creek Project	8%	0.51 X	\$34.7	\$0.08	Cost of Sales	\$0.0	\$57.6	\$117.5	\$104.0
Exploration Upside	n.a	n.a	\$10.0	\$0.02	<b>Gross Profit</b>	<b>\$0.0</b>	<b>\$58.0</b>	<b>\$133.4</b>	<b>\$127.1</b>
Cash	n.a	n.a	\$15.3	\$0.04	EBITDA	<b>(-\$5.3)</b>	\$47.6	\$118.6	\$113.3
Unpaid Capital*	n.a	n.a	\$0.0	\$0.00	Net Profit before tax	<b>(-\$4.5)</b>	\$39.4	\$84.1	\$79.5
<b>Total NAV</b>			<b>\$279.5</b>	<b>\$0.65</b>	Tax Payable	<b>\$0.0</b>	\$0.0	\$0.0	\$0.0
					<b>Profit after tax</b>	<b>(-\$4.5)</b>	<b>\$39.4</b>	<b>\$84.1</b>	<b>\$79.5</b>



Balance Sheet				
Assets				
Cash	\$21.9	\$30.2	\$110.4	\$201.5
Total Current Assets	\$31.5	\$39.8	\$120.0	\$211.1
PPE & Exp. & Dev.	\$109.1	\$140.2	\$144.2	\$132.6
Total Non Current Assets	\$111.6	\$142.7	\$146.7	\$135.0
<b>Total Assets</b>	<b>\$143.1</b>	<b>\$182.5</b>	<b>\$266.7</b>	<b>\$346.1</b>

Liabilities				
Interest Bearing	\$14.1	\$14.1	\$14.1	\$14.1
Total Current Liabilities	\$20.9	\$20.9	\$20.9	\$20.9
Total Non Current Liabilities	\$30.9	\$30.9	\$30.9	\$30.9
<b>Total Liabilities</b>	<b>\$51.8</b>	<b>\$51.8</b>	<b>\$51.8</b>	<b>\$51.8</b>

Cashflow Generation				
Cashflow generated	<b>(-\$4.5)</b>	\$48.4	\$119.4	\$114.1
Debt Funding	\$13.3	\$0.0	\$0.0	\$0.0
Equity Funding	\$0.0	\$0.0	\$0.0	\$0.0
Capital Expenditure	\$0.0	<b>(-\$40.1)</b>	<b>(-\$39.3)</b>	<b>(-\$23.0)</b>
Debt Repayments	\$0.0	\$0.0	\$0.0	\$0.0
<b>Free Cashflow</b>	<b>\$8.8</b>	<b>\$8.3</b>	<b>\$80.2</b>	<b>\$91.1</b>

Ratios and Key Financial Data				
EPS (AUDc)	-1.0c	9.2c	19.6c	18.5c
CFPS (AUDc)	-1.0c	11.3c	27.9c	26.6c
FCFPS (AUDc)	1.9c	1.8c	18.5c	21.1c
P/E ratio (x)	<b>-24.78 X</b>	2.83 X	1.32 X	1.40 X
P/CF (x)	<b>-24.78 X</b>	2.30 X	0.93 X	0.98 X
P/FCF (x)	13.87 X	14.80 X	1.40 X	1.23 X
EV/EBITDA (x)	NM	2.05 X	0.82 X	0.86 X
Current ratio (x)	1.51 X	1.90 X	5.74 X	10.10 X
Shares on Issue (M)	428.6	428.6	428.6	428.6

Reserve and Resources Statement (100% of Project)

Status	Tonnes (Mt)	Grade Ni (%)	Contained Ni (t)	EV / t
Total Reserves	1.8	1.3%	22,326	\$4,378
M&I only	13.3	1.7%	225,185	\$434
Total Resource	19.4	1.6%	316,213	\$309
Production	8.6	1.3%	107,794	\$907

Production Profile (t Ni) (100% of Project)

Operation	FY2018	FY2019	FY2020	FY2021
Savannah	0	7,204	9,605	9,605
Lanfranchi	0	0	5,607	3,738
<b>Total</b>	<b>0</b>	<b>7,204</b>	<b>15,212</b>	<b>13,343</b>

Cash Cost (A\$/t)

AUD / t	FY2018	FY2019	FY2020	FY2021
<b>Nickel Price</b>	<b>\$16,000</b>	<b>\$18,222</b>	<b>\$20,667</b>	<b>\$21,333</b>
C1 Cash costs - Savannah	\$0	\$7,996	\$7,996	\$7,996
C1 Cash costs - Lanfranchi	\$0	\$0	\$7,266	\$7,266
AISC - Savannah	\$0	\$12,526	\$12,398	\$12,304
AISC - Lanfranchi	\$0	\$0	\$12,436	\$11,210

Target Price (A\$) at Various Nickel Prices (US\$) and Discount Rates

Nickel Price/Disc Rate	\$12,000	\$14,000	\$16,000	\$18,000
15%	\$0.23	\$0.32	\$0.41	\$0.51
12%	\$0.24	\$0.35	\$0.45	\$0.56
10%	\$0.25	\$0.36	<b>\$0.48</b>	\$0.60
8%	\$0.25	\$0.39	\$0.52	\$0.65
5%	\$0.27	\$0.42	\$0.58	\$0.73
0%	\$0.30	\$0.51	\$0.72	\$0.93

Directors & Management

Chairman	Brian Philips
Managing Director	Peter Harold
Non Executive Director	John Rowe
Non Executive Director	Peter Sullivan
CFO & CS	Trevor Eton
COO	Terry Strong

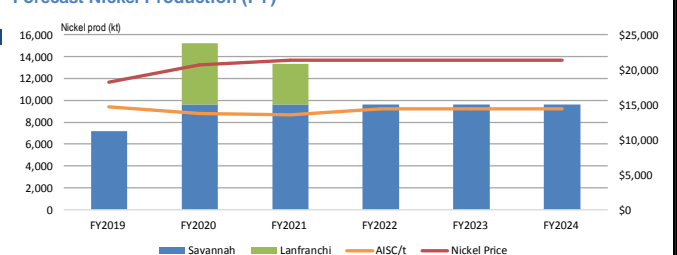
Major Shareholders\*\*

Zeta Resources	25.2%
CFS	6.4%
Thorney Inv.	4.4%
Dimensional Fund	3.2%
UBS (Zurich)	2.4%
<b>Total</b>	<b>41.7%</b>

Mine Life

Operation	Savannah	Lanfranchi
Years	10.26	1.25

Forecast Nickel Production (FY)



\*\*sourced factset.

Source: Company data, Somers estimates. Warning: forward looking statements are uncertain and may not actually be achieved.

### About the analysts

#### Duncan Hughes, Director, Mining and Metals analyst

Duncan has over 17 years' experience in the mining sector. Duncan joined Somers and Partners in July 2014 from RFC Ambrian where he was Head of Research based in London and Perth. At RFC Ambrian Duncan was focussed on small to mid-cap mining stocks. Duncan holds a first class honours degree in Geology and worked for 10 years as a geologist in Western Australia. As Exploration Superintendent at Jubilee Mines, he was actively involved in the discovery of a number of high grade nickel sulphide ore bodies that have since been mined. He has also spent time exploring for base metals and gold with Lion Ore Australia and was involved in the discovery of the Deep South Gold Mine whilst at Sons of Gwalia.

On completion of an MBA on investment and risk from Imperial College London, Duncan spent three years as a fund manager investing in small cap resources companies in Australia with the LinQ Resource fund and in London at CD Capital.

#### Conrad Mulherin, Equities Research analyst

Conrad joined Somers and Partners in 2012 as an Equities Research Analyst covering Mining and Emerging Technology Companies.

Conrad has an Honours degree in Geological Sciences from Queen's University in Canada and a MSc in Resources Management from the University College London in the U.K.

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