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Panoramic Resources Ltd (PAN)

Savannah study optimised

Recommendation
Hold (unchanged)
Price
$0.21
Target (12 months)
$0.22 (previously $0.12)
Risk
Speculative

GICS Sector

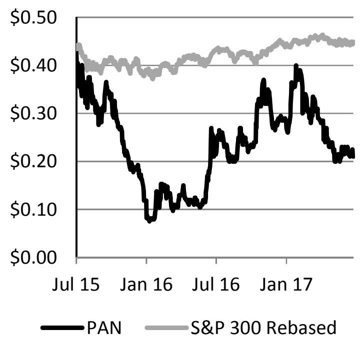
Materials

Expected Return	
Capital growth	**4.8%**
Dividend yield	**0.0%**
Total expected return	**4.8%**
Company Data & Ratios	
Enterprise value	**$77.2m**
Market cap	**$90.0m**
Issued capital	**428.6m**
Free float	**73%**
Avg. daily val. (52wk)	**$199,854**
12 month price range	**$0.19-$0.41**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.21	0.31	0.26
Absolute (%)	0.00	-31.15	-17.65
Rel market (%)	1.33	-28.35	-22.26

Absolute Price



SOURCE: IRESS

Updated study shows material improvements

PAN has released the result of an optimised Feasibility Study on its Savannah nickel project in WA. On a like-for-like basis (constant price deck) it delivers improved financial metrics due primarily to lower operating costs, improved metal payabilities, reduced capital cost and accelerated annual production rates over a shorter mine life. Savannah is envisaged to produce 11ktpa Ni, 5.8ktpa Cu and 760tpa Co at operating costs of US$2.40/lb of payable nickel over a mine life of 8.5 years. Capital costs of A$220m include $20m of pre-production CAPEX and a maximum drawdown of $40m. PAN estimates a cash breakeven price for the project of US$3.65/lb. The Savannah mine, mobile fleet and infrastructure have all been well maintained on care and maintenance, enabling a low cost and rapid re-start of production.

Secures PAN a spot on the starting grid

PAN is clearly pinning its production hopes on Savannah which, through significant exploration success and optimisation work is emerging as a viable project at spot prices with the potential to re-establish PAN as a nickel producer. To this end, PAN has investigated a number of financing options to fund the maximum cash drawdown, which it estimates at A$40m, peaking 14 months after production re-start. The balance of the project is to be funded from positive operational cash flows, with project payback targeted in under three years. This is a risky strategy, but the study provides proof of concept and demonstrates its leverage to a higher commodity price environment, in which it would make an attractive financing proposition.

Investment thesis – Hold (Speculative), Valuation$0.22/sh

We update our valuation to reflect the ongoing care and maintenance status of PAN's operations but a significant boost received due to the updated Feasibility Study on Savannah, lower corporate costs and the market value of PAN's 51% holding in Horizon Gold (HRN, not rated) to which we had previously attributed no value. Our NPV-based valuation increases 83% to $0.22/sh. We retain our Hold (Spec.) rating.

Earnings Forecast

Year end 30 June	2016a	2017e	2018e	2019e
Sales (A$m)	93	9	-	-
EBITDA (A$m)	(22)	(13)	(7)	(7)
NPAT (reported) (A$m)	(144)	(3)	(6)	(6)
NPAT (adjusted) (A$m)	(87)	(10)	(6)	(6)
EPS (adjusted) (¢ps)	(45)	(1)	(1)	(1)
EPS growth (%)	na	na	na	na
PER (x)	(0.5)	(27.2)	(17.0)	(18.1)
FCF Yield (%)	-58%	-11%	-9%	-7%
EV/EBITDA (x)	(3.6)	(6.1)	(11.5)	(11.5)
Dividend (¢ps)	-	-	-	-
Yield (%)	0.0%	0.0%	0.0%	0.0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-83%	-9%	-5%	-5%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Panoramic Resources Ltd (PAN)

Company description

Panoramic Resources Ltd (PAN) is an established nickel company which owns two underground nickel sulphide mines – the Savannah mine in East Kimberley and the Lanfranchi mine near Kambalda, Western Australia. The Savannah mine had previously produced nickel concentrate for shipment to the Jinchuan Group of China. Lanfranchi had previously supplied nickel ore feedstock to BHP Billiton's Nickel West Kambalda concentrator. The declining nickel price over 1HFY16 forced PAN to place both mines on care and maintenance. The company is also holds the Panton PGM project (100%) located 60km south of Savannah which is the subject of ongoing optimisation studies. Other assets include its Thunder Bay North PGM project in Canada, of which up to 70% is currently being farmed out to Rio Tinto. In 2016 PAN successfully listed a spin-off company, Horizon Gold (HRN, not rated) which owns the Gum Creek (formerly Gidgee) Gold Project. PAN retains a 51% holding in HRN.

Investment thesis – Hold (Speculative risk), V$0.22/sh

We update our valuation to reflect the ongoing care and maintenance status of PAN's operations and a significant boost received due to the updated Feasibility Study on Savannah, lower corporate costs and the market value of PAN's 51% holding in Horizon Gold (HRN, not rated) to which we had previously attributed no value. Our NPV-based valuation increases 83% to $0.22/sh. We retain our Hold (Spec.) rating.

Valuation – risked discounted cash flow of key project

Our valuation for PAN comprises our estimate of the net present value (NPV) of the ongoing care and maintenance costs at the two former production assets, the Savannah nickel mine and the Lanfranchi nickel mine. We also calculate a risk-adjusted NPV for the re-start of the Savannah nickel mine, broadly based on the parameters and assumptions reported in the optimised Feasibility Study of July 2017. This assumes a Mining Inventory of 7.6Mt @ 1.42% Ni, 0.68% Cu and 0.10% Co being mined at a rate of 900ktpa. Over a 8.5 year mine-life this is planned to produce a total of 93.8kt nickel, 49.1kt copper and 6.5kt of cobalt in a concentrate. In addition to this our valuation includes a notional estimate for PAN's other exploration assets, the marked-to-market value of the shares held in HRN and an estimate of the NPV of PAN's corporate and administration costs.

Our valuation also assumes an equity raise ($10m at $0.20/sh), which we view as likely within the next 12 months.

Resource sector risks

Risks to PAN include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments. As a company that now has no sales revenues, PAN is reliant on access to equity markets and debt financing to fund the advancement and development of its projects.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company may relate to geological, mining and metallurgical performance vs design. These can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Construction and development of mining assets may be subject to approvals timelines, receipt of permits, weather events, access to skilled labour and technical personnel, as well as key material inputs which may cause delays to construction, commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resources companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates. As most metal prices are denominated in US dollars, their translation into Australian dollars are affected by fluctuations in the value of the Australian dollar. Commodity price and foreign exchange rates may be different from our forecasts.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives. Exploration success is dependent upon a wide range of factors and can deliver a wide range of results. Even once Reserves have been calculated, their economic viability remains dependent upon actual commodity prices and inputs to operating costs.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies. PAN's key assets are located in Australia, in the State of Western Australia, a politically and socially stable jurisdiction, however changes to business conditions and government policies can and have occurred, with potential for adverse impacts on the economic and social viability of PAN's operations.
- **Corporate/M&A risks.** Risks associated with M&A activity include differences between the entity's and the market's perception of value associated with completed transactions, the actual performance of an acquired asset vs its expected performance as assessed by the acquiror and the timing of an acquisition may all have a material impact on the value attributed by the market to that acquisition.
- **Native title.** A Federal Court judgement recently determined that certain Lanfranchi tenements are invalid to the extent that they are inconsistent with the continued existence, enjoyment or exercise of native title rights held by the Ngadju People. The Determination has been appealed by some of the Respondents to the Determination.

Panoramic Resources Ltd
as at 24 July 2017

Recommendation	Hold, Speculative
Price	$0.21
Target (12 months)	$0.22

Table 1 - Financial summary

PROFIT AND LOSS

Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
Revenue	$m	200	93	9	-	-
Expense	$m	(190)	(115)	(22)	(7)	(7)
EBITDA	$m	**10**	**(22)**	**(13)**	**(7)**	**(7)**
Depreciation	$m	(62)	(50)	(0)	-	-
EBIT	**$m**	**(52)**	**(72)**	**(13)**	**(7)**	**(7)**
Net interest expense	$m	(1)	(1)	0	1	1
PBT	$m	**(53)**	**(73)**	**(12)**	**(6)**	**(6)**
Tax expense	$m	12	10	-	-	-
Impairments/write-offs/other	$m	12	(81)	9	-	-
NPAT (reported)	$m	**(29)**	**(144)**	**(3)**	**(6)**	**(6)**
Abnormal items (after-tax)	$m	(8)	57	(6)	-	-
NPAT (adjusted)	$m	**(37)**	**(87)**	**(10)**	**(6)**	**(6)**

PROFIT AND LOSS (INTERIM)

Half year ending	Unit	Jun-16a	Dec-16a	Jun-17e	Dec-17e	Jun-18e
Revenue	$m	42	8	1	-	-
Expense	$m	(37)	(18)	(4)	(3)	(3)
EBITDA	$m	**5**	**(9)**	**(3)**	**(3)**	**(3)**
Depreciation	$m	(13)	(0)	-	-	-
EBIT	$m	(9)	(10)	(3)	(3)	(3)
Net interest expense	$m	(2)	(0)	1	1	0
PBT	$m	**(11)**	**(10)**	**(3)**	**(3)**	**(3)**
Tax expense	$m	1	-	-	-	-
Impairments/write-offs/other	$m	(3)	9	-	-	-
NPAT (reported)	$m	**(13)**	**(1)**	**(3)**	**(3)**	**(3)**
Abnormal items	$m	(2)	(6)	-	-	-
NPAT (adjusted)	$m	**(16)**	**(7)**	**(3)**	**(3)**	**(3)**

CASH FLOW

Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
OPERATING CASHFLOW						
Receipts	$m	218	102	9	0	-
Payments	$m	(164)	(143)	(17)	(7)	(7)
Tax	$m	3	1	-	-	-
Net interest	$m	(0)	(0)	1	1	1
Other	$m	(10)	(2)	(0)	-	-
Operating cash flow	$m	**46**	**(43)**	**(7)**	**(6)**	**(6)**
INVESTING CASHFLOW						
Capex	$m	(27)	(9)	(0)	-	-
Exploration & evaluation	$m	(15)	(6)	(4)	(3)	(1)
Other	$m	2	17	1	-	-
Investing cash flow	$m	**(40)**	**2**	**(3)**	**(3)**	**(1)**
FINANCING CASHFLOW						
Net equity proceeds	$m	(0)	10	14	10	-
Debt proceeds/(repayments)	$m	(7)	(4)	(0)	-	-
Dividends	$m	(10)	-	-	(0)	-
Other	$m	-	-	-	-	-
Financing cash flow	$m	**(17)**	**6**	**14**	**9**	**-**
Change in cash	$m	(10)	(35)	4	0	(7)

BALANCE SHEET

Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
ASSETS						
Cash & short term investments	$m	54.1	19.4	23.3	23.7	17.1
Accounts receivable	$m	11	1	0	-	-
Inventory	$m	13	8	0	0	0
Mine development and PPE	$m	105	28	29	29	29
Exploration & evaluation	$m	114	80	90	93	94
Other	$m	32	4	4	4	4
Total assets	$m	**329**	**141**	**147**	**150**	**145**
LIABILITIES						
Accounts payable	$m	36	5	2	1	1
Borrowings	$m	3	2	1	1	1
Other	$m	51	32	31	30	30
Total liabilities	$m	**89**	**38**	**34**	**33**	**33**
SHAREHOLDER'S EQUITY						
Share capital	$m	159	169	169	179	179
Reserves	$m	46	42	42	42	42
Retained earnings	$m	35	(109)	(112)	(118)	(123)
Non-controlling interest	$m	-	-	14	14	14
Total equity	$m	**240**	**102**	**113**	**117**	**112**
Weighted average shares	m	322	338	429	454	479

FINANCIAL RATIOS

Year ending 30 Jun	Unit	2015a	2016a	2017e	2018e	2019e
VALUATION						
NPAT (adjusted)	$m	(37)	(87)	(10)	(6)	(6)
Reported EPS	c/sh	(9)	(45)	(1)	(1)	(1)
EPS growth	%	n/a	na	na	na	na
PER	x	-2.3x	-0.5x	-27.2x	-17.0x	-18.1x
DPS	c/sh	1	-	-	-	-
Franking	%	100%	0%	0%	0%	0%
Yield	%	4.8%	0.0%	0.0%	0.0%	0.0%
FCF/share	c/sh	2	(12)	(2)	(2)	(1)
FCF yield	%	10%	-58%	-11%	-9%	-7%
EV/EBITDA	x	7.5x	-3.6x	-6.1x	-11.5x	-11.5x
PROFITABILITY RATIOS						
EBITDA margin	%	5%	-23%	-143%	0%	0%
EBIT margin	%	-26%	-77%	-146%	0%	0%
Return on assets	%	-12%	-61%	-7%	-4%	-4%
Return on equity	%	-16%	-83%	-9%	-5%	-5%
LIQUIDITY & LEVERAGE						
Net debt / (cash)	$m	(51)	(18)	(22)	(22)	(16)
ND / E	%	nc	nc	nc	nc	nc
ND / (ND + E)	%	nc	nc	nc	nc	nc

ASSUMPTIONS - Prices (nominal)

Year ending 30 Jun	Unit	2016a	2017e	2018e	2019e	LTe
Nickel	US$/lb	4.23	4.78	5.65	6.65	7.12
Copper	USc/lb	222	245	288	300	311
CURRENCY						
AUD/USD	US$/A$	0.73	0.75	0.75	0.75	0.75

ASSUMPTIONS - Production (equity %)

Year ending 30 Jun	Unit	2016a	2017e	2018e	2019e	LTe
Total Ni production (in ore/concentrate)	kt	10.9	-	-	-	-
Total Ni production (payable sales)	kt	7.2	0.6	-	-	-
Lanfranchi						
Ni production (in ore)	kt	1.0	-	-	-	-
Cu production (in ore)	kt	0.1	-	-	-	-
Ni cash costs (inc. royalties, payable)	A$/lb	19.84	-	-	-	-
Savannah						
Ni production (in concentrate)	kt	9.8	-	-	-	-
Cu production (in concentrate)	kt	6.0	-	-	-	-
Ni cash costs (inc. royalties, payable)	A$/lb	4.32	na	-	-	-

VALUATION

Issued capital	Unit	
Ordinary shares	m	428.6
In-the-money-options / perf. rights	m	3.5
Total (diluted)	**m**	**432.1**
Equity raising assumption	m	50.0
Total (diluted, with equity raise)	**m**	**482.1**

Sum of parts valuation	$m	$/sh
Lanfranchi	(4.7)	(0.01)
Savannah	(3.6)	(0.01)
Savannah BFS	8.8	0.02
Lower Schmitz	74.3	0.17
Equity Investments	11.3	0.03
Other undeveloped assets and Resources	10.0	0.02
Corporate	(14.2)	(0.03)
Enterprise value	**81.9**	**0.19**
Net (debt)/cash	12.8	0.03
Equity value	**94.7**	**0.22**
Cash from equity raise	10.0	0.20
Total (diluted, post raise)	**104.7**	**0.22**

SUBSTANTIAL SHAREHOLDERS

Issued capital	
Zeta Resources Limited	27.0%
Colonial First State	3.9%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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