

# Panoramic Resources Ltd

## (PAN \$0.38) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	24 <sup>th</sup> January 2018	\$0.60/sh

### \$21m Renounceable Entitlement Offer to progress Savannah Nth

#### Investment case

The entitlements issue is attractively priced at a 42% discount to our revised valuation of \$0.59/sh. The funds will enable PAN to progress Savannah and prepare for the restart which we believe is likely to happen in the next three to six months. Low restart capital of \$40m, a six-nine month ramp up to first concentrate and 8.5yr mine life makes Savannah a very attractive project. Significant Cu and Co by product credits results in AISC of A\$4.50/lb Ni payable compared to current A\$ Ni price of >A\$7/lb. We estimate Savannah can generate average EBITDA of \$98m pa over a ~ 9yr mine life. PAN offers excellent leverage to the Ni price as it can respond quickly to higher prices and turn this into cashflow. Buy.

#### Key points

- PAN is undertaking a 1 for 7 entitlement issue @ \$0.34/sh to raise ~ \$21m. The issue is fully underwritten.
- The offer price of \$0.34/sh represents at
  - 11.7% discount to the last traded price (\$0.385/sh).
  - 15.2% discount to the 5 day VWAP and 17.4% discount to the 10 day VWAP.
- PAN will trade Ex-entitlement on Wednesday 31st of Jan and rights trading is scheduled to finish on the 14th of Feb'18.
- These funds will be used to progress Savannah towards a restart, exploration to drill other intrusive targets around Savannah and general working capital.
- PAN continues to negotiate with offtake customers and project finances for the likely debt component of the restart capital with is estimated at ~\$40m.
- The funds raised will also be used to;
  - Commence process plant refurbishment
  - Commence the Savannah North primary ventilation project,
  - Order long lead items,
  - Advance offtake contract(s) and financing arrangements,
  - Tendering for major contracts.
- Assuming the Nickel price stabilizes above US\$5.50/lb, we believe that PAN will formally commit to a restart in the next three to six months.
- The Oct'17 feasibility study showed a robust development at Nickel price of US\$5.50/lb with annual production of 10.8kt of Ni, 6.1kt of Cu and 0.8kt of Co for a minimum of 8.5yrs.
- At a base case price of Ni @ US\$5.50/lb, Cu @ US\$3.10/lb and Co @ US\$28/lb PAN calculate and NPV8 (pre tax) of \$210m (and pre tax cashflow of \$330m).
- The AISC is estimated at US\$3.50/lb or A\$4.50/lb compared to current A\$ Ni price of US\$5.70/lb (> A\$7.00/lb).
- Pre production and ramp up capital is estimated at \$36m with a maximum cash draw down of ~ \$40m which occurs during the three month ramp up after commencement of production.
- The project becomes cashflow positive 14 months after production and project payback is <2yrs (based on the base case pricing scenario)
- Based on our LT price assumptions of Ni @ US\$7.50/lb, Cu @ US\$3.25/lb and Co @ US\$25/lb we forecast average EBITDA of \$98m with peak EBITDA of \$120m in Year 3. At current prices this equates to a fully developed EV/EBITDA of <2x.

Panoramic Resources Ltd	Year End 30 June	
Share Price	0.38	A\$/sh
Price Target	0.60	A\$/sh
Methodology		npv
Valuation	0.59	A\$/sh
		(npv 10% nom)

Shares on issue	492	m, diluted *
Market Capitalisation	187	A\$m
Enterprise Value	163	A\$m
Debt	0	A\$m
Cash	24	A\$m
Largest Shareholder	Zeta Resources	27%

Production F/Cast	2018f	2019f	2020f
Ni in conc. (kt)	0.0	3.0	11.5
Copper in conc. (kt)	0.0	2.0	6.1
Op cost (A\$/lb)	0.0	2.7	2.0

Assumptions	2018f	2019f	2020f
Ni Price assumed US\$/lb	5.27	6.00	7.00
Ni Price achieved US\$/lb	5.26	6.00	7.00
AUDUSD	0.78	0.78	0.78

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	0	51	203
EBITDA (A\$m)	0	17	107
NPAT (A\$m)	-3	8	61
Cashflow (A\$m)	-22	-25	82

CFPS (Ac)	-5	-5	17
P/CFPS (x)	na	na	2.3

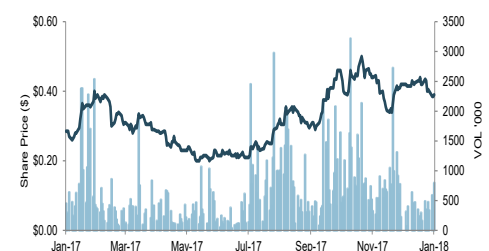
EPS (Ac)	-1	2	12
EPS growth (%)	na	na	705%
PER (x)	na	24.5	3.0

EV:EBITDA (x)	na	12.4	1.2
EV:EBIT (x)	na	18.1	1.4

DPS (Ac)	0.0	0.0	0.0
Dividend Yield (%)	0%	0%	0%

ND:Net Debt+Equity (%)	n/a	n/a	n/a
Interest Cover (x)	n/a	n/a	n/a

#### Share Price Chart



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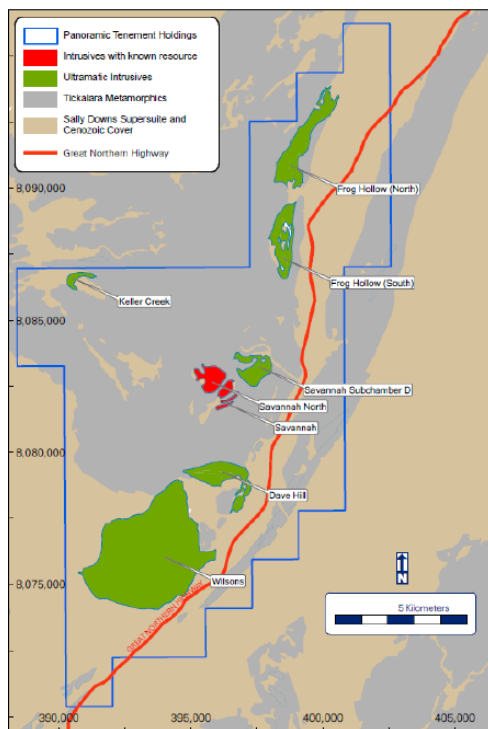
- PAN offers strong leverage to the Ni price with a US\$1.00/lb increase in the Ni price increasing the pre tax NPV8 by \$160m. A US\$0.05 decrease in the US\$:A\$ exchange rate adds ~ \$50m to the pre tax NPV.

Pre-tax NPV <sub>8</sub> (\$'M)		Nickel Price US\$/lb)					
		5.00	6.00	7.00	8.00	9.00	10.00
US\$:A\$ FX Rate	0.65	270	453	635	790	946	1,102
	0.70	207	377	546	690	835	979
	0.75	153	312	469	604	739	874
	0.80	105	254	401	528	654	781
	0.85	63	203	342	461	580	699

Source: Panoramic Resources Ltd

### Exploration Upside

- The resource at Savannah Nth remain open and based on down hole EM the potential strike length of the Upper zone is ~ 2km.
- Only 50% of the Upper zone has been drill tested and the Lower Resource remain open down dip to the NW.
- A number of other mafic/ultramafic intrusive bodies have been identified at the Savannah project and CSIRO age dating indicates they are part of the same magmatic event at Savannah/Savannah Nth. Limited drilling has been done at three of the four prospects.



Source: Panoramic Resources Ltd

- PAN plan to spend ~\$4m over the next year drilling and exploring these targets. These targets dwarf the EM size of Savannah/Savannah Nth and represent potentially game changing targets.

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# Panoramic Resources Ltd

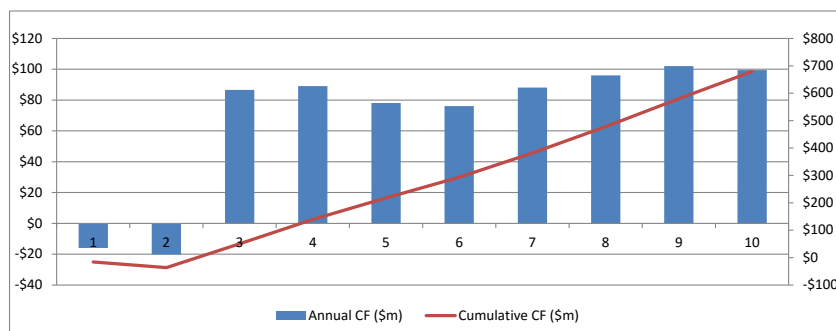
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### Analysis

PAN represents excellent exposure to strong EV thematic with the ability to produce significant tonnages of Nickel, Copper and Cobalt. Once ramped up it will produce on average - 15kt of Ni equivalent pa for a minimum of 8.5yrs.

The key differentiator between PAN and many of the peers is that it can be in production within 6-9 months of committing to the Savannah restart at a fraction of the capex cost of a greenfields development due to infrastructure already in place.

The chart below represents our forecast cashflow each year and the cumulative cashflow, which based on our price assumptions, shows a pre tax cashflow \$679m at the end of project.



Source: Euroz data

The Savannah Nth project is a better project than the original Savannah project with higher Ni, Co and Cu grades. The increase in the Cu and Co price significantly improve the economics as by product credits. Previously, the revenue split was ~ 85% Ni 15% Cu and Co, whereas in the optimised feasibility the split was 60% Ni, 40% Cu and Co.

Longer term, PAN will investigate the possibility of producing a separate Ni and Cu concentrate, rather than the bulk Ni-Cu-Co concentrate it has always produced. The separate concentrates could improve payability from ~50% to +80% - potentially adding \$15-20m EBITDA pa.

Our valuation has increased from \$0.55/sh to \$0.59/sh. We have previously modelled in an equity raising of \$25m @ \$0.45/sh so whilst the dilution is greater larger, we have removed our 80% risk adjustment to reflect our view that PAN will shortly commit to a re start.

Our Price Target has increased in line with our valuation to \$0.60/sh. The entitlements issue price of \$0.34/sh is almost at a 50% discount to our valuation and we recommend shareholders take up their entitlements.

We see a number of positive catalysts over the short to medium term including;

- Exploration drilling,
- Debt and offtake agreements,
- Commitment to restart Savannah operations.

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## Market Statistics

		Year End 30 June			
<b>Share Price</b>	<b>\$0.38 A\$/sh</b>	<b>Directors</b>			
Issued Capital		B.Phillips		Chair	
FP Ord	491.5 m	P.Harold		MD	
Opts (var)	3.0 m	J.Rowe		NE Dir	
<b>Total Dil. FPOrd</b>	<b>491.5 m</b>	P. Sullivan		NE Dir	
<b>Market Capitalisation</b> \$187 m		<b>Shareholders</b>			
Enterprise Value	\$163 m	Zeta Res		27%	
Debt	\$- m				
Cash	\$24 m				
Hedging					

Asset Valuation	A\$m	A\$/sh
Savannah Nickel	252	0.51
Lanfranchi	5	0.01
Hedging	(0)	(0.00)
Corporate	(46)	(0.09)
Gold/PGM assets	15	0.03
Exploration	40	0.08
Debt	-	-
Unpaid Capital (\$25m @ \$0.45/sh)	0	0.00
Cash	24	0.05
<b>Total @ 10% nom</b>	<b>290</b>	<b>0.59</b>

F/Cast Production (A\$m)	2017f	2018f	2019f	2020f	2021f	
<b>Attributable production</b>						
Savannah Nickel (100%)	kt	0.8	0.0	3.0	11.5	11.8
Lanfranchi (100%)	kt	0.0	0.0	0.0	0.0	-
<b>Ni in con</b>	<b>kt</b>	<b>0.8</b>	<b>0.0</b>	<b>3.0</b>	<b>11.5</b>	<b>11.8</b>
Copper in con	kt	0.5	0.0	2.0	6.1	6.3
Cobalt in con	kt	0.0	0.0	0.2	0.8	0.9
<b>Operating cost Ni payable</b>	<b>A\$/lb</b>	-	<b>2.74</b>	<b>1.98</b>	<b>1.99</b>	
<b>AISC per payable</b>	<b>A\$/lb</b>		<b>12.96</b>	<b>3.55</b>	<b>3.90</b>	
FX Rate assumed	US\$:A\$1	0.75	0.78	0.78	0.78	0.78
Ni Price assumed	US\$/lb	4.55	5.27	6.00	7.00	7.25
Ni Price achieved	US\$/lb	4.65	5.26	6.00	7.00	7.25
Ni Price achieved	A\$/lb	6.18	6.74	7.69	8.97	9.29

Ratio Analysis (A\$m)	2017f	2018f	2019f	2020f	2021f
CF (A\$m)	(8)	(22)	(25)	82	60
CF / Sh (Ac/sh)	(2)	(5)	(5)	17	12
CF Ratio (x)	na	na	na	2.3	3.1
Earnings (A\$m)	(2)	(3)	8	61	67
EPS (Ac/sh)	(0)	(1)	2	12	14
EPS Growth (%)	na	na	na	705%	9%
Earnings Ratio (x)	na	na	24.5	3.0	2.8
E'prise Val. (A\$m)	31	184	209	127	66
EV : EBITDA (x)	na	na	12.4	1.2	0.6
EV : EBIT (x)	na	na	18.1	1.4	0.7
Net Debt / ND+Eq (%)	na	na	15%	na	na
Interest Cover (x)	na	na	17	247	na
EBIT Margin (%)	na	na	23%	44%	43%
ROE (%)	-2%	-3%	6%	30%	24%
ROA (%)	-3%	-3%	6%	34%	29%
Div. (Ac/sh)	-	-	-	-	-
Div. payout ratio	0%	0%	0%	0%	0%
Div. Yield	0%	0%	0%	0%	0%
Div. Franking	100	100	100	100	100

Profit and Loss (A\$m)	2017f	2018f	2019f	2020f	2021f
Ni Conc. Sales	7	0	32	140	150
By Product Revenue	2	0	18	61	63
Hedging Revenue	-	-	-	(0)	(0)
Revenue Adjustment	-	-	-	-	-
Interest Revenue	1	0	1	1	5
Other Revenue	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>9</b>	<b>0</b>	<b>51</b>	<b>203</b>	<b>218</b>
Operating Costs	13	0	29	91	94
Dep/Amort	0	0	5	18	23
O/H + Bus Dev	8	5	4	4	4
W/O & Provisions	(10)	0	0	0	0
EBITDA	-	-	17	107	115
EBIT	(3)	(5)	12	88	92
Interest Expense	-	-	2	2	1
Net Profit Before Tax	(3)	(4)	11	88	95
Tax	(1)	(1)	3	26	29
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>(2)</b>	<b>(3)</b>	<b>8</b>	<b>61</b>	<b>67</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>(2)</b>	<b>(3)</b>	<b>8</b>	<b>61</b>	<b>67</b>

Cash Flow (A\$m)	2017f	2018f	2019f	2020f	2021f
Net Profit	(2)	(3)	8	61	67
+ Working Capital Adj.	5	(2)	-	-	-
+ Dep/Amort	0	0	5	18	23
+ Provisions	(10)	0	0	0	0
+ Tax Expense	(1)	(1)	3	26	29
- Tax Paid	(1)	-	-	-	29
<b>Operating Cashflow</b>	<b>(6)</b>	<b>(6)</b>	<b>16</b>	<b>106</b>	<b>90</b>
-Capex + Development	2	16	41	24	30
-Exploration	3	2	-	-	-
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
<b>Investing Cashflow</b>	<b>(5)</b>	<b>(18)</b>	<b>(41)</b>	<b>(24)</b>	<b>(30)</b>
+Equity Issues	-	20	-	-	-
+Loan D'down/Receivable	-	25	-	-	-
-Loan Repayment	-	-	-	10	10
-Dividends	-	-	-	-	-
<b>Financing Cashflow</b>	<b>-</b>	<b>45</b>	<b>-</b>	<b>(10)</b>	<b>(10)</b>
<b>Period Sur (Def)</b>	<b>(11)</b>	<b>21</b>	<b>(25)</b>	<b>72</b>	<b>50</b>
<b>Cash Balance</b>	<b>12</b>	<b>33</b>	<b>8</b>	<b>80</b>	<b>130</b>

Balance Sheet (A\$m)	2017f	2018f	2019f	2020f	2021f
<b>Assets</b>					
Cash	10	33	8	80	130
Current Receivables	1	1	1	1	1
Other Current Assets	0	0	0	0	0
Non-Current Assets	122	138	174	179	186
<b>Total Assets</b>	<b>133</b>	<b>172</b>	<b>183</b>	<b>261</b>	<b>317</b>
<b>Liabilities</b>					
Borrowings	3	30	30	20	10
Current Accounts Payable	2	2	2	2	2
Other Liabilities	31	31	31	31	31
<b>Total Liabilities</b>	<b>36</b>	<b>63</b>	<b>63</b>	<b>53</b>	<b>43</b>
<b>Net Assets</b>	<b>97</b>	<b>108</b>	<b>120</b>	<b>207</b>	<b>274</b>

## Reserves and Resources

	Reserves		Resources			
	mt	Ni%	Ni	mtNi% (eq)	Ni cont.	
Savannah (100%)	7.6	1.4	108.0	13.10	1.66	218.2
Lanfranchi (100%)	0.20	2.1	4.3	6.3	1.5	95.0
<b>Total Attributable</b>				<b>112</b>		<b>313</b>
EV/lb				0.7		0.2

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