

# Panoramic Resources Ltd

## (PAN \$0.55) Buy

EUROZ

Analyst	Date	Price Target
Andrew Clayton	1 <sup>st</sup> June 2018	\$0.80/sh

### On the cusp of development

#### Investment case

PAN represents excellent exposure to the emerging EV/ battery thematic. The higher, and what looks to be a more sustained nickel price gives us confidence that a decision to restart Savannah will be made in the 3rd Q CY'18. Higher price assumptions (Cu and Co) plus the potential for increased payability on its concentrate has resulted in our valuation and price target increasing to \$0.78/sh and \$0.80/sh respectively. We forecast PAN will have similar AISC to WSA and believe that once in production it can trade on similar metrics implying a share price of >\$1.00/sh. Our Buy is maintained.

#### Key points

- We expect PAN to formally commit to restart Savannah in Q3 CY'18 with total pre-production capital of ~ \$36m. First ore is slated in ~ six months with full production after 15 months.
- Mining will start at Savannah (19.8kt @ 1.18% Ni) before transitioning to Savannah Nth (88.9kt @ 1.49% Ni). Resources below the 900 fault (15kt @ 1.65% Ni) are not included in the mine plan.
- Historically we estimate Savannah Ni payability at ~ 66-67% with both Cu and Co payability at ~ 45% as a by product credit. Currently, Jinchuan have the offtake for the Savannah orebody and PAN is negotiating offtake for Savannah Nth.
- Lack of new Ni concentrate with significant by product credits is likely to see payability terms significantly increased to >70%. We now model in a 72% payability. It should be noted the feasibility study used historical payability.
- We have also increased our LT Cu and Co assumption from US\$3.25/lb to US\$3.40/lb and US\$25/lb to US\$35/lb respectively.
- The net effect of the increased payability and higher price assumption is our valuation has increased from \$0.60/sh to \$0.78/sh. The increased payability added \$40m or \$0.08/sh to our valuation.
- Our average EBITDA pa has increased from ~ \$100m to \$125m with peak EBITDA of \$140m in Yr 3. This puts PAN on a fully developed EV/EBITDA of <3x
- PAN have stated a decision to restart is contingent on three key area
  - Finalise Savannah Nth offtake
  - Secure project finance
  - Sustained recovery in the US\$ Ni price.
- We believe that PAN is well advanced in offtake and project finance discussion and the US\$ Ni price is at 3.5yr highs.
- In the event of lower Ni prices once PAN is in production, the higher payability will help them absorb this impact, making a decision to restart easier.

#### Comparison with other Ni Producers

- WSA is the most obvious comparison as a pure Ni producer. WSA does not report AISC payable cost but instead reports A\$/lb C1 cost of production before payability.
- We estimate WSA payability at ~ 73-74% so based on its YTD FY'18 C1 cost of A\$2.57//lb, and capex of \$33m we estimate ASIC per payable of ~A\$4.20/lb.
- This compares to our PAN AISC forecast of A\$4.25/lb and demonstrates that both PAN and WSA have similar cost structure with PAN's significant by product credits offsetting its lower grade.

Panoramic Resources Ltd	Year End 30 June	
Share Price	0.55	A\$/sh
Price Target	0.80	A\$/sh
Methodology		npv
Valuation	0.78	A\$/sh (npv 10% nom)

Shares on issue	492	m, diluted *
Market Capitalisation	270	A\$m
Enterprise Value	250	A\$m
Debt	0	A\$m
Cash	20	A\$m
Largest Shareholder	Zeta Resources 30%	

Production F/Cast	2018f	2019f	2020f
Ni in conc. (kt)	0.0	2.0	10.7
Copper in conc. (kt)	0.0	1.3	6.1
Op cost (A\$/lb)	0.0	2.2	2.2

Assumptions	2018f	2019f	2020f
Ni Price assumed US\$/lb	5.52	6.63	7.25
Ni Price achieved US\$/lb	5.51	7.00	7.25
AUDUSD	0.78	0.78	0.78

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	0	45	225
EBITDA (A\$m)	0	18	121
NPAT (A\$m)	-3	10	72
Cashflow (A\$m)	-6	-32	85

CFPS (Ac)	-1	-7	17
P/CFPS (x)	na	na	3.2

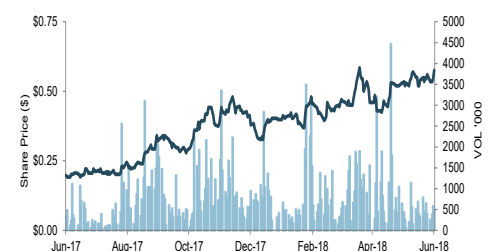
EPS (Ac)	-1	2	15
EPS growth (%)	na	na	620%
PER (x)	na	26.9	3.7

EV:EBITDA (x)	na	16.0	1.6
EV:EBIT (x)	na	19.7	1.9

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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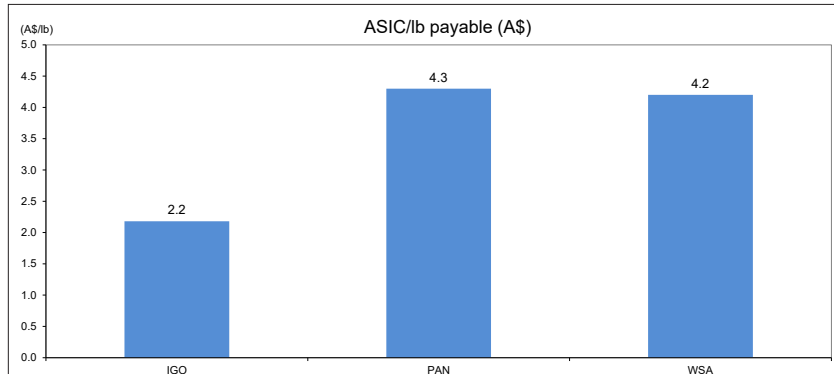
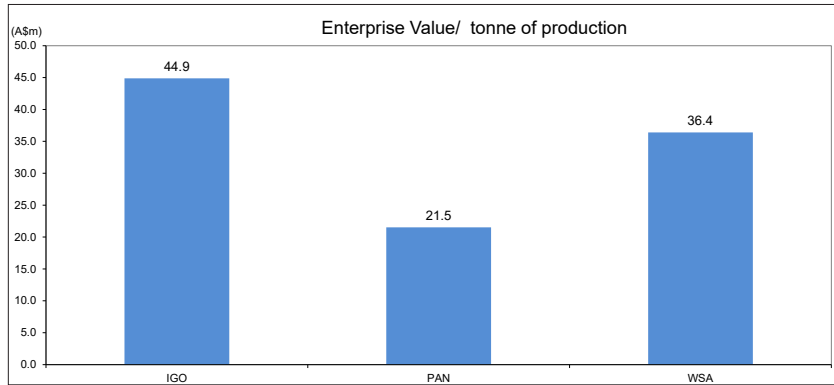
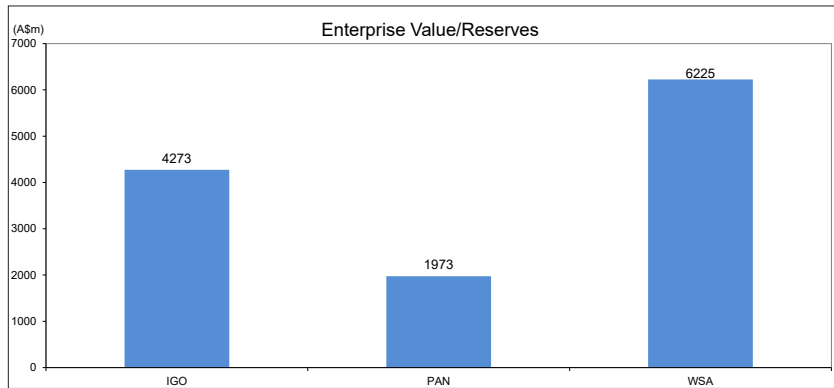
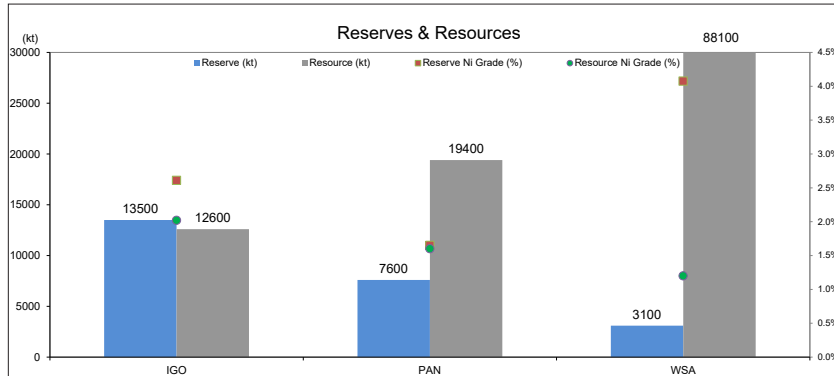
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- IGO is the clear standout with Nova Bollinger forecast to have AISC of ~ A\$2.20/lb.



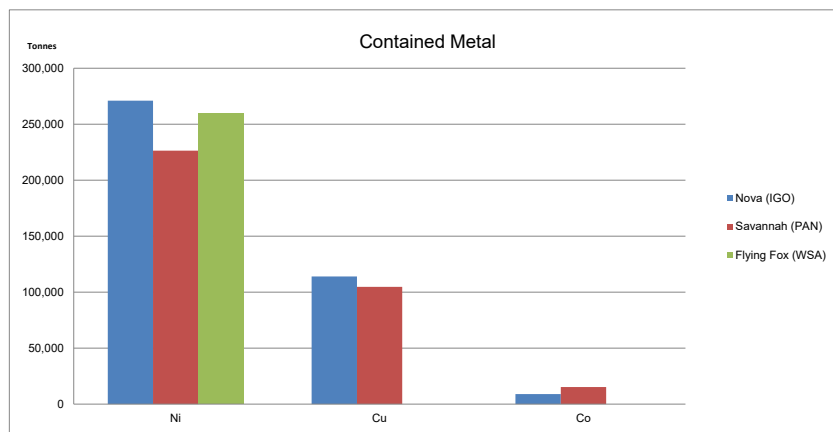
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- The table above show that WSA is trading on EV/rsv t of \$6,000/t compared to PAN @ \$1,915/t, similarly WSA trades on a EV/prod t of \$34.6/t versus PAN @ \$20.9/t. Once in production we see potential for this discrepancy to close and for PAN to trade on similar metrics. This would imply a share price >\$1.00/sh.

## Analysis

PAN represents excellent exposure to the emerging EV/ battery thematic. The higher, and what looks to be a more sustained nickel price gives us confidence that a decision to restart Savannah will be made in the 3rd Q.

Higher payability, if achieved, only enhances the restart decision. The debt funding should be sufficient to fund the balance of the \$36m pre-production capital (current cash is ~\$20m).

Comparatively, PAN is cheap. WSA is perceived as a low cost, high grade operation (+4% Ni) but the reality is on a ASIC/lb payable basis we expect both PAN and WSA to have a very similar cost profile. We acknowledge that WSA is in production and actually doing it but with the by product revenue generating 30-40% of total revenue, PAN should not be viewed as a high cost producer.

The exploration upside is significant with Savannah Nth open and a potential strike length of 2km based on downhole EM. Currently only half of this potential has been drill tested. In addition, there are a number of other intrusive bodies that occur at Savannah that have not been adequately drill tested.

Our valuation and PT has increased to \$0.78/she and \$0.80/she respectively driven by higher price assumptions and increased payability. Once in production we see potential for >\$1.00/sh based on similar metrics to WSA.

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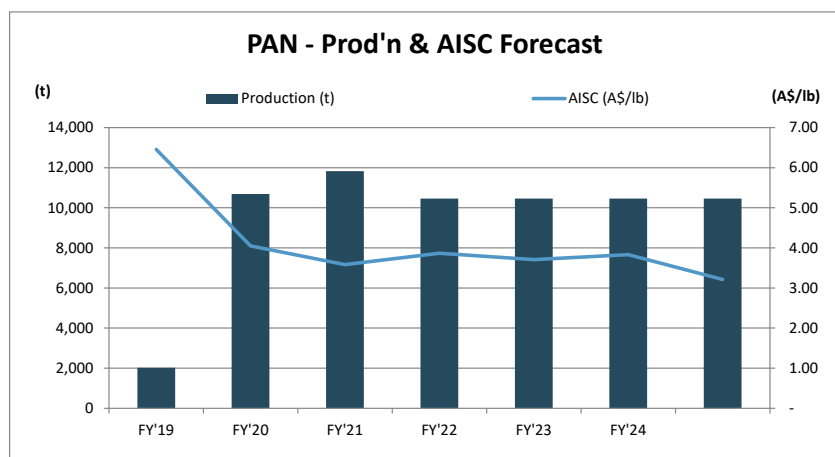
## Key Variables

Val/ Sh		Nickel								
\$0.78		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.39	\$0.44	\$0.49	\$0.53	\$0.58	\$0.63	\$0.67	\$0.72	\$0.77
	10%	\$0.44	\$0.49	\$0.54	\$0.59	\$0.64	\$0.69	\$0.74	\$0.79	\$0.84
	5%	\$0.50	\$0.55	\$0.60	\$0.65	\$0.71	\$0.76	\$0.81	\$0.86	\$0.91
	0%	\$0.56	\$0.62	\$0.67	\$0.73	\$0.78	\$0.83	\$0.89	\$0.94	\$0.99
	-5%	\$0.63	\$0.69	\$0.75	\$0.80	\$0.86	\$0.92	\$0.97	\$1.03	\$1.09
	-10%	\$0.71	\$0.77	\$0.83	\$0.89	\$0.95	\$1.01	\$1.07	\$1.13	\$1.19
	-15%	\$0.79	\$0.86	\$0.92	\$0.98	\$1.05	\$1.11	\$1.17	\$1.24	\$1.30

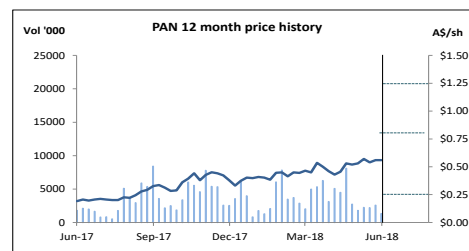
Val/ Sh		Copper								
\$0.78		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.55	\$0.56	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.60	\$0.61
	10%	\$0.61	\$0.62	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.66	\$0.67
	5%	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.71	\$0.72	\$0.73	\$0.74
	0%	\$0.74	\$0.75	\$0.76	\$0.77	\$0.78	\$0.79	\$0.80	\$0.81	\$0.82
	-5%	\$0.82	\$0.83	\$0.84	\$0.85	\$0.86	\$0.87	\$0.88	\$0.89	\$0.90
	-10%	\$0.91	\$0.92	\$0.93	\$0.94	\$0.95	\$0.96	\$0.97	\$0.98	\$0.99
	-15%	\$1.01	\$1.02	\$1.03	\$1.04	\$1.05	\$1.06	\$1.07	\$1.08	\$1.09

Val/ Sh		Cobalt								
\$0.78		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
WTI	15%	\$0.53	\$0.55	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.63
	10%	\$0.59	\$0.60	\$0.62	\$0.63	\$0.64	\$0.65	\$0.66	\$0.68	\$0.69
	5%	\$0.66	\$0.67	\$0.68	\$0.69	\$0.71	\$0.72	\$0.73	\$0.74	\$0.76
	0%	\$0.73	\$0.74	\$0.75	\$0.77	\$0.78	\$0.79	\$0.81	\$0.82	\$0.83
	-5%	\$0.80	\$0.82	\$0.83	\$0.85	\$0.86	\$0.87	\$0.89	\$0.90	\$0.92
	-10%	\$0.89	\$0.90	\$0.92	\$0.93	\$0.95	\$0.96	\$0.98	\$0.99	\$1.01
	-15%	\$0.99	\$1.00	\$1.02	\$1.03	\$1.05	\$1.06	\$1.08	\$1.10	\$1.11

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Nickel	\$5.52	\$6.63	\$7.25	\$7.50	\$7.50	\$7.50
Copper	\$3.00	\$3.13	\$3.25	\$3.25	\$3.33	\$3.40
AUDUSD	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78	\$0.78



## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$0.78/sh

Price Target - \$0.80/sh

Bull Scenario \$1.50

An increase in nickel, copper and cobalt price above our long-term forecasts will see free cash-flow increase dramatically leading to increased dividends and capital growth. Successful exploration increases mine life to >10yrs.

Base Scenario - \$0.80/sh

Savannah Nickel mine restart is expected to happen in 3-6 months and offers excellent leverage to nickel price. The project is estimated to generate average EBITDA \$98m/pa over 9 years.

Bear Scenario - \$0.25

A decrease in Nickel, Copper and cobalt price below our long-term forecast may jeopardise PAN's restart of the Savannah Mine and see PAN price fall back to the mid \$0.25/sh which is similar to where it was before the recent increase in Ni price.

## Company Summary

The Company has produced over 180,000 tonnes of nickel, 60,500 tonnes copper and 4,900 tonnes cobalt from its two nickel sulphide projects in Western Australia.

Low Nickel price resulted in Savannah being placed on care and maintenance in May'16, preserving mine life and optionality. A positive feasibility study and higher metal prices increases the likelihood that a re start of operations will occur in the short-medium term. Current reserves of 94.5 kt of Ni, 40.9kt of Cu and 6.7kt of Co underpin a +9yr mine life.

## Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz.

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Market Statistics		Year End 30 June				
<b>Share Price</b>	<b>\$0.55 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			
		N. Cernotta	NE Dir			
Market Capitalisation	\$270 m	<b>Shareholders</b>				
Enterprise Value	\$250 m	Zeta Res	30%			
Debt	\$- m					
Cash	\$20 m					
Hedging						
<b>Asset Valuation</b>		<b>A\$m</b>	<b>A\$/sh</b>			
Savannah Nickel		349	0.71			
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		0	0.00			
Cash		20	0.04			
<b>Total @ 10% nom</b>		<b>383</b>	<b>0.78</b>			
<b>F/Cast Production (A\$m)</b>		<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
<b>Attributable production</b>						
Savannah Nickel (100%)	kt	0.8	0.0	2.0	10.7	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>2.0</b>	<b>10.7</b>	<b>11.8</b>
Copper in con	kt	0.5	0.0	1.3	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>2.18</b>	<b>2.17</b>	<b>1.93</b>	
<b>AISC per payable</b>	<b>A\$/lb</b>		<b>6.45</b>	<b>4.05</b>	<b>3.58</b>	
FX Rate assumed	US\$:A\$1	0.75	0.78	0.78	0.78	0.78
Ni Price assumed	US\$/lb	4.55	5.52	6.63	7.25	7.50
Ni Price achieved	US\$/lb	4.65	5.51	7.00	7.25	7.50
Ni Price achieved	A\$/lb	6.18	7.06	8.97	9.29	9.61
<b>Ratio Analysis (A\$m)</b>		<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
CF (A\$m)		(8)	(6)	(32)	85	77
CF / Sh (Ac/sh)		(2)	(1)	(7)	17	16
CF Ratio (x)		na	na	na	3.2	3.5
Earnings (A\$m)		(2)	(3)	10	72	85
EPS (Ac/sh)		(0)	(1)	2	15	17
EPS Growth (%)		na	na	na	620%	17%
Earnings Ratio (x)		na	na	26.9	3.7	3.2
E'prise Val. (A\$m)		31	251	284	199	121
EV : EBITDA (x)		na	na	16.0	1.6	0.9
EV : EBIT (x)		na	na	19.7	1.9	1.0
Net Debt / ND+Eq (%)		na	na	11%	na	na
Interest Cover (x)		na	na	323	na	na
EBIT Margin (%)		na	na	33%	46%	47%
ROE (%)		-2%	-3%	9%	33%	28%
ROA (%)		-3%	-3%	8%	38%	34%
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
<b>Profit and Loss (A\$m)</b>		<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Ni Conc. Sales		7	0	29	158	180
By Product Revenue		2	0	14	66	65
Hedging Revenue		-	-	-	(0)	(0)
Revenue Adjustment		-	-	-	-	-
Interest Revenue		1	0	2	2	5
Other Revenue		-	-	-	-	-
<b>TOTAL REVENUE</b>		<b>9</b>	<b>0</b>	<b>45</b>	<b>225</b>	<b>251</b>
Operating Costs		13	0	20	96	100
Dep/Amort		0	0	3	17	23
O/H + Bus Dev		8	5	6	6	6
W/O & Provisions		(10)	0	0	0	0
EBITDA		-	-	18	121	139
EBIT		(3)	(5)	14	103	117
Interest Expense		-	-	2	2	1
Net Profit Before Tax		(3)	(4)	14	103	121
Tax		(1)	(1)	4	31	36
Minorities		-	-	-	-	-
<b>NET PROFIT</b>		<b>(2)</b>	<b>(3)</b>	<b>10</b>	<b>72</b>	<b>85</b>
Net Abnormal Gain/(Loss)		-	-	-	-	-
<b>NET PROFIT After Abn'l</b>		<b>(2)</b>	<b>(3)</b>	<b>10</b>	<b>72</b>	<b>85</b>
<b>Cash Flow (A\$m)</b>		<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
Net Profit		(2)	(3)	10	72	85
+ Working Capital Adj.		5	(2)	(10)	-	-
+ Dep/Amort		0	0	3	17	23
+ Provisions		(10)	0	0	0	0
+ Tax Expense		(1)	(1)	4	31	36
- Tax Paid		(1)	-	-	-	36
<b>Operating Cashflow</b>		<b>(6)</b>	<b>(6)</b>	<b>8</b>	<b>121</b>	<b>107</b>
-Capex + Development		2	-	40	36	30
-Exploration		3	2	-	-	-
-Assets Purchased		-	-	-	-	-
+Asset Sales		-	-	-	-	-
<b>Investing Cashflow</b>		<b>(5)</b>	<b>(2)</b>	<b>(40)</b>	<b>(36)</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>37</b>	<b>(32)</b>	<b>75</b>	<b>67</b>
<b>Cash Balance</b>		<b>12</b>	<b>49</b>	<b>17</b>	<b>92</b>	<b>159</b>
<b>Balance Sheet (A\$m)</b>		<b>2017f</b>	<b>2018f</b>	<b>2019f</b>	<b>2020f</b>	<b>2021f</b>
<b>Assets</b>						
Cash		10	49	17	92	159
Current Receivables		1	1	1	1	1
Other Current Assets		0	0	0	0	0
Non-Current Assets		122	122	159	177	185
<b>Total Assets</b>		<b>133</b>	<b>172</b>	<b>176</b>	<b>270</b>	<b>345</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>113</b>	<b>217</b>	<b>301</b>
<b>Reserves and Resources</b>						
		<b>Reserves</b>		<b>Resources</b>		
		<b>mt</b>	<b>Ni%</b>	<b>Ni</b>	<b>mtNi% (eq)</b>	<b>Ni cont.</b>
Savannah (100%)		7.6	1.4	108.0	13.10	1.66
Lanfranchi (100%)		0.20	2.1	4.3	6.3	1.5
<b>Total Attributable</b>					<b>112</b>	<b>313</b>
EV/lb					1.0	0.4

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