

# Panoramic Resources Ltd

## (PAN \$0.55) Buy



Analyst	Date	Price Target
Andrew Clayton	16 <sup>th</sup> July 2018	\$0.80/sh

### Savannah Restart – First shipment Mar Q CY'19

#### Investment case

At current Ni prices, higher payability and a very competitive debt package the decision to restart Savannah operation is compelling. The quantum of the debt package should erase any lingering doubts that further equity maybe required. With average EBITDA of \$125m PAN trades on a EV/EBITDA of <3x. This is cheap. Our PT remains at 0.80/sh.

#### Key points

- Board has formally committed to restart Savannah and is targeting first shipment of Ni concentrate early in the Mar Q CY'19.
- PAN has executed a \$40m loan facility with Macquarie Bank with qtrly repayment commencing in 31/3/20 and final repayment 31/12/21.
- Mandatory Ni and Co hedging has been completed. 7kt of Ni for delivery between Feb'19 and June' 21 at a A\$8.51/lb and 3kt of Cu for same delivery dates at average price of A\$3.71/lb.
- Project start up capex of \$36m well covered by this \$40m debt facility and current cash of - \$20m.
- Once commissioned, Savannah Project will ramp up to full production over 15 months with average annual production of - 10.8kt of Ni, 6.1kt of Cu and 800t of Co for at least

#### Analysis

This is an excellent deal and paves the way for the Savannah restart and first production within 9 months. The quantum of the debt package is larger than we forecast. This should remove any lingering doubt that further equity will be required to restart.

We have assumed an interest rate of 6% on the debt but this may prove to be conservative as we note that PAN describes it as 'very competitive for a financing of this style'.

The mandatory hedging is slightly below our forecast price assumptions of A\$9.00-9.50/lb and as a consequence our valuation has fallen by \$0.02/sh to \$0.77/sh.

Our forecast average EBITDA is \$125m with peak EBITDA of \$140m which puts PAN on a fully developed EV/EBITDA of <3x. In addition we forecast PAN will have similar AISC to WSA @ \$4.30/lb due to it Cu and Co by product credits. We believe that once in production in can trade on similar metrics which implies a share price of >\$1.00/sh.

We maintain our Buy and \$0.80/sh price target. Exploration remains a wild card with only 30% of the Savannah Nth EM drill tested along with other EM anomalies that warrant drilling.

Panoramic Resources Ltd	Year End 30 June	
Share Price	0.55	A\$/sh
Price Target	0.80	A\$/sh
Methodology		npv
Valuation	0.77	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	2.1	2.1

Assumptions	2018f	2019f	2020f
Ni Price assumed US\$/lb	5.66	6.63	7.25
Ni Price achieved US\$/lb	5.66	6.78	7.03
AUDUSD	0.78	0.76	0.76

Key Financials	2018f	2019f	2020f
Revenue (A\$m)	0	46	224
EBITDA (A\$m)	0	19	120
NPAT (A\$m)	-3	11	71
Cashflow (A\$m)	-6	-32	84

CFPS (Ac)	-1	-6	17
P/CFPS (x)	na	na	3.2

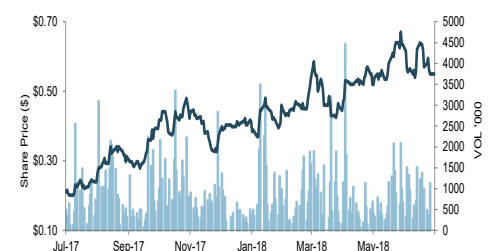
EPS (Ac)	-1	2	15
EPS growth (%)	na	na	577%
PER (x)	na	25.7	3.8

EV:EBITDA (x)	na	15.1	1.7
EV:EBIT (x)	na	18.1	2.0

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 \$0.55) Buy



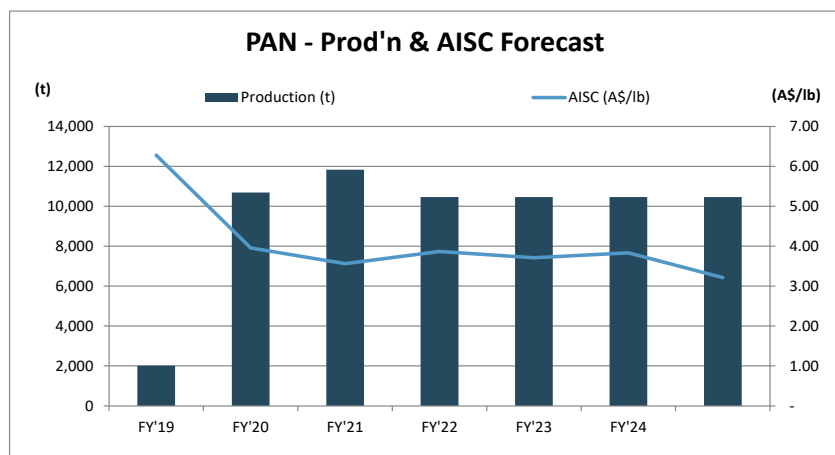
## Key Variables

Val/ Sh		Nickel								
\$0.77		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.43	\$0.47	\$0.51	\$0.55	\$0.59	\$0.63	\$0.67	\$0.71	\$0.75
	10%	\$0.48	\$0.52	\$0.56	\$0.60	\$0.65	\$0.69	\$0.73	\$0.77	\$0.82
	5%	\$0.53	\$0.57	\$0.62	\$0.66	\$0.71	\$0.75	\$0.79	\$0.84	\$0.88
	0%	\$0.58	\$0.63	\$0.68	\$0.72	\$0.77	\$0.82	\$0.87	\$0.91	\$0.96
	-5%	\$0.65	\$0.70	\$0.75	\$0.80	\$0.84	\$0.89	\$0.94	\$0.99	\$1.04
	-10%	\$0.72	\$0.77	\$0.82	\$0.87	\$0.93	\$0.98	\$1.03	\$1.08	\$1.13
	-15%	\$0.80	\$0.85	\$0.91	\$0.96	\$1.02	\$1.07	\$1.13	\$1.18	\$1.24

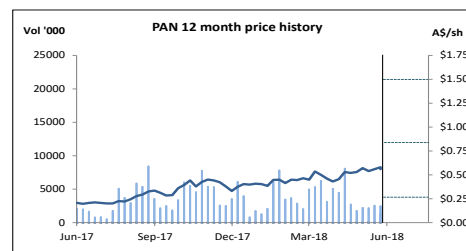
Val/ Sh		Copper								
\$0.77		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.56	\$0.57	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.61	\$0.62
	10%	\$0.61	\$0.62	\$0.63	\$0.64	\$0.65	\$0.65	\$0.66	\$0.67	\$0.68
	5%	\$0.67	\$0.68	\$0.69	\$0.70	\$0.71	\$0.71	\$0.72	\$0.73	\$0.74
	0%	\$0.74	\$0.74	\$0.75	\$0.76	\$0.77	\$0.78	\$0.79	\$0.80	\$0.81
	-5%	\$0.81	\$0.82	\$0.83	\$0.84	\$0.84	\$0.85	\$0.86	\$0.87	\$0.88
	-10%	\$0.89	\$0.90	\$0.91	\$0.92	\$0.93	\$0.94	\$0.95	\$0.96	\$0.97
	-15%	\$0.97	\$0.98	\$1.00	\$1.01	\$1.02	\$1.03	\$1.04	\$1.05	\$1.06

Val/ Sh		Cobalt								
\$0.77		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.54	\$0.56	\$0.57	\$0.58	\$0.59	\$0.60	\$0.61	\$0.63	\$0.64
	10%	\$0.60	\$0.61	\$0.62	\$0.63	\$0.65	\$0.66	\$0.67	\$0.68	\$0.69
	5%	\$0.65	\$0.67	\$0.68	\$0.69	\$0.71	\$0.72	\$0.73	\$0.74	\$0.76
	0%	\$0.72	\$0.73	\$0.74	\$0.76	\$0.77	\$0.79	\$0.80	\$0.81	\$0.83
	-5%	\$0.79	\$0.80	\$0.82	\$0.83	\$0.84	\$0.86	\$0.87	\$0.89	\$0.90
	-10%	\$0.87	\$0.88	\$0.90	\$0.91	\$0.93	\$0.94	\$0.96	\$0.97	\$0.99
	-15%	\$0.95	\$0.97	\$0.99	\$1.00	\$1.02	\$1.03	\$1.05	\$1.06	\$1.08

Euroz Forecast	FY'18	FY'19	FY'20	FY'21	FY'22	FY'23
Nickel	\$5.66	\$6.63	\$7.25	\$7.50	\$7.50	\$7.50
Copper	\$3.07	\$3.13	\$3.25	\$3.25	\$3.33	\$3.40
AUDUSD	\$0.78	\$0.76	\$0.76	\$0.78	\$0.78	\$0.78



## Our Share Price Sensitivity



## Our Market Sensitivity

Valuation - \$0.77/sh

Price Target - \$0.80/sh

Bull Scenario \$1.50/sh

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 \$125m/pa over 9 years.

Bear Scenario - \$0.25/sh

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.

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(PAN \$0.55) Buy

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## Market Statistics

		Year End 30 June			
<b>Share Price</b>	<b>\$0.55</b>	<b>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</b>	<b>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					

## Asset Valuation

	A\$m	A\$/sh
Savannah Nickel	354	0.72
Lanfranchi	5	0.01
Hedging	(9)	(0.02)
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>379</b>	<b>0.77</b>

## F/Cast Production (A\$m)

	2017a	2018f	2019f	2020f	2021f	
<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>Op. cost Ni payable</b>	<b>A\$/lb</b>	-	<b>2.06</b>	<b>2.06</b>	<b>1.91</b>	
<b>AISC per payable</b>	<b>A\$/lb</b>		<b>6.28</b>	<b>3.96</b>	<b>3.56</b>	
FX Rate assumed	US\$:A\$1	0.75	0.78	0.76	0.76	0.78
Ni Price assumed	US\$/lb	4.55	5.66	6.63	7.25	7.50
Ni Price achieved	US\$/lb	4.65	5.66	6.78	7.03	7.27
Ni Price achieved	A\$/lb	6.18	7.29	8.92	9.25	9.38

## Ratio Analysis (A\$m)

	2017a	2018f	2019f	2020f	2021f
CF (A\$m)	(8)	(6)	(32)	84	73
CF / Sh (Ac/sh)	(2)	(1)	(6)	17	15
CF Ratio (x)	na	na	na	3.2	3.7
Earnings (A\$m)	(2)	(3)	11	71	80
EPS (Ac/sh)	(0)	(1)	2	15	16
EPS Growth (%)	na	na	na	577%	12%
Earnings Ratio (x)	na	na	25.7	3.8	3.4
E'prise Val. (A\$m)	31	280	292	209	136
EV : EBITDA (x)	na	na	15.1	1.7	1.0
EV : EBIT (x)	na	na	18.1	2.0	1.2
Net Debt / ND+Eq (%)	na	11%	17%	na	na
Interest Cover (x)	na	na	15	249	na
EBIT Margin (%)	na	na	36%	46%	46%
ROE (%)	-2%	-4%	10%	34%	28%
ROA (%)	-3%	-3%	9%	38%	32%
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)

	2017a	2018f	2019f	2020f	2021f
Ni Conc. Sales	7	0	30	162	182
By Product Revenue	2	0	14	67	65
Hedging Revenue	-	-	-	(7)	(8)
Revenue Adjustment	-	-	-	-	-
Interest Revenue	1	0	1	2	5
Other Revenue	-	-	-	-	-
<b>TOTAL REVENUE</b>	<b>9</b>	<b>0</b>	<b>46</b>	<b>224</b>	<b>245</b>
Operating Costs	13	0	20	97	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	-	-	19	120	133
EBIT	(3)	(5)	16	102	110
Interest Expense	-	-	2	2	2
Net Profit Before Tax	(3)	(4)	15	102	114
Tax	(1)	(1)	5	31	34
Minorities	-	-	-	-	-
<b>NET PROFIT</b>	<b>(2)</b>	<b>(3)</b>	<b>11</b>	<b>71</b>	<b>80</b>
Net Abnormal Gain/(Loss)	-	-	-	-	-
<b>NET PROFIT After Abn'l</b>	<b>(2)</b>	<b>(3)</b>	<b>11</b>	<b>71</b>	<b>80</b>

## Cash Flow (A\$m)

	2017a	2018f	2019f	2020f	2021f
Net Profit	(2)	(3)	11	71	80
+ Working Capital Adj.	5	(2)	(10)	-	-
+ Dep/Amort	0	0	3	17	23
+ Provisions	(10)	0	0	0	0
+ Tax Expense	(1)	(1)	5	31	34
- Tax Paid	(1)	-	-	-	34
<b>Operating Cashflow</b>	<b>(6)</b>	<b>(6)</b>	<b>8</b>	<b>120</b>	<b>103</b>
-Capex + Development	2	-	40	36	30
-Exploration	3	5	-	-	-
-Assets Purchased	-	-	-	-	-
+Asset Sales	-	-	-	-	-
<b>Investing Cashflow</b>	<b>(5)</b>	<b>(5)</b>	<b>(40)</b>	<b>(36)</b>	<b>(30)</b>
+Equity Issues	-	19	-	-	-
+Loan D'down/Receivable	-	-	30	-	-
-Loan Repayment	-	-	-	10	10
-Dividends	-	-	-	-	-
<b>Financing Cashflow</b>	<b>-</b>	<b>19</b>	<b>30</b>	<b>(10)</b>	<b>(10)</b>
<b>Period Sur (Def)</b>	<b>(11)</b>	<b>8</b>	<b>(2)</b>	<b>74</b>	<b>63</b>
<b>Cash Balance</b>	<b>12</b>	<b>20</b>	<b>18</b>	<b>92</b>	<b>154</b>

## Balance Sheet (A\$m)

	2017a	2018f	2019f	2020f	2021f
<b>Assets</b>					
Cash	10	20	18	92	154
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>143</b>	<b>178</b>	<b>270</b>	<b>340</b>
<b>Liabilities</b>					
Borrowings	3	30	40	30	20
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>73</b>	<b>63</b>	<b>53</b>
<b>Net Assets</b>	<b>97</b>	<b>79</b>	<b>105</b>	<b>207</b>	<b>287</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				1.0		0.4

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