

31 Dec 2019

## PANORAMIC RESOURCES LTD (PAN)

### IGO takeover offer to lapse, more funds being raised

Independence Group (IGO) has announced its intention to allow its off-market takeover bid for Panoramic Resources Ltd (PAN) to lapse.

The takeover offer was conditional and did not receive the support of the PAN Board or major shareholder, Zeta Resources (~35% of PAN). A number of defeating conditions of the takeover offer were also breached, in particular the need for additional funding (via an entitlement offer), and an operational update which detailed another production guidance downgrade for FY20; both major breaches to the offer which IGO has decided not to waive and hence the offer will lapse on 17Jan'20. The formal notice of the defeating conditions are expected on 9Jan'20. IGO had an interest in PAN of 4.85% (32.4M shares) as at the 24Dec'19.

### Raising A\$32.7M to repay Zeta loan, UG development and WC

PAN has an open retail entitlement offer (1 for 6 pro-rata @ 30cps) which currently closes 10Jan'20. The completed institutional offer raised only ~A\$3.5M outside of the Zeta allocation, which should provide another ~A\$11.5M, and will be used to repay the Zeta bridge loan (A\$10.5M). Our latest model updates for the new equity, which is conditionally underwritten, for pro-forma shares on issue of ~763M, pro-forma cash of ~A\$38.5M (with the Zeta loan repaid), and debt of A\$20M (Macquarie Bank).

Other use of proceeds includes: ongoing underground (UG) development of the Savannah North orebody, additional paste-fill infrastructure, some targeted exploration at Savannah North, and for general working capital.

### FY20 Guidance Downgraded, LOM schedule lowers inventory

PAN's latest operational update highlighted that the Savannah North orebody remains on track for first stoped ore in early MarQ CY20, and a strong ramp-up in metal production throughout the New Year. Development ores are now being accessed, with the first cut providing nickel grades in the order of ~1.5-1.8% Ni, higher than the current reserve grades. The ventilation shaft is over 60% complete and expected to be completed in the JunQ CY20. The operations are planned to move to contract mining in the New Year, which should address some of the productivity issues at the mine.

**FY20 production guidance**, which was lowered in Sep'19, has been further downgraded to 7.0-7.5kt contained nickel, 4.5-5.0kt contained copper and 0.4-0.45kt contained cobalt. Our FY20 nickel production forecast has been lowered to ~7.0kt Ni (previously ~8.4kt Ni).

The Savannah **LOM production plan** has been updated for slightly lower tonnes (-5%) and grade (-2%) at higher cost (+8% on AISC) relative to the Oct'17 Feasibility Study. However, PAN sees significant upside potential to increase the mining inventory over time, especially given the ongoing drill success at Savannah North. We now assume a mine life of +7 years and better align the latest production guides.

### Maintain Neutral, Lowered Price Target to 40cps

We maintain our **Neutral** recommendation due to the current equity raise, and production challenges at Savannah. In addition, the conditional takeover offer by IGO for PAN is expected to lapse in early Jan'20. Our latest PAN NAV is 46cps (from 67cps), spot NAV is 40cps and our **price target is 40cps** (previously 48cps).

Share Price	\$0.315
Valuation	\$0.46
Price Target (12 month)	\$0.40

#### Brief Business Description:

Savannah nickel-copper mine ramping up production. Improved production forecast.

#### Hartleys Brief Investment Conclusion

Effectively beginning a new nickel mine at Savannah, utilising existing infrastructure. Still ramping-up production. Takeover bid by IGO set to lapse, currently raising new equity.

#### Chairman & MD

Peter Sullivan (Non-Exec Chairman, Zeta nominee)  
 Victor Rajasooriar (MD & CEO)

#### Top Shareholders

Zeta Resources 35.2%

#### Company Address

Level 9, 553 Hay St  
 Perth, WA, 6000

**Issued Capital** 763.3m  
 - fully diluted 763.3m

**Market Cap** A\$240.4m  
 - fully diluted A\$240.4m

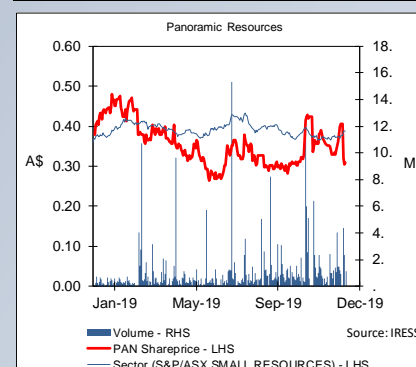
**Cash (est)** A\$38.5m

**Debt (est)** A\$26.6m

**EV** A\$228.5m

**EV/Resource Ni lb** A\$0.48/lb

	FY19e	FY20e	FY21e
Nick Prod (kt) -pay	1.7	4.8	7.0
Copp Prod (kt)-pay	0.6	2.0	2.5
Op Cash Flw A\$M	-7.9	31.4	72.7
Norm NPAT A\$M	6.9	7.4	36.8
CF/Share (cps)	1.8	1.5	6.4
EPS (cps)	2.5	2.2	9.2
P/E	17.9	20.9	4.9
	<b>Ni kt</b>	<b>Cu kt</b>	<b>Co kt</b>
Reserves (Kt) - 100%	110	51	8
Resources (Kt) -100%	217	100	15



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Hartleys has completed a Placement and Underwriting of an Entitlement Offer in the last 12 months for Panoramic Resources Limited ("PAN"), for which it has earned fees.

Panoramic Resources PAN		Share Price \$0.315				Neutral	
<b>Key Market Information</b>						<b>Company Information</b>	
Share Price		\$0.315				Level 9, 553 Hay St Perth, WA, 6000 +61 8 9225 0999 +61 8 9421 1008 www.panoramicresources.com	
Market Capitalisation - ordinary		A\$240m					
Net Debt (cash)		-\$12m					
Market Capitalisation - fully diluted		A\$240m					
EV		A\$229m					
Issued Capital		763.3m					
Options		0.0m					
Issued Capital (fully diluted inc. all options)		763.3m					
Issued Capital (fully diluted inc. all options and new capital)		763.3m					
Valuation		\$0.46					
12month price target		\$0.40					
<b>P&amp;L</b>	<b>Unit</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>		
Net Revenue	A\$m	1.2	27.4	132.3	194.8		
Total Costs	A\$m	-48.8	-10.3	-98.8	-118.9		
EBITDA	A\$m	-47.6	17.2	33.5	75.9		
- margin		na	63%	25%	39%		
Depreciation/Amort	A\$m	0.0	-7.0	-21.2	-26.2		
EBIT	A\$m	-47.6	10.2	12.3	49.7		
Net Interest	A\$m	-0.5	-0.9	-2.4	-0.6		
Norm. Pre-Tax Profit	A\$m	-48.0	9.2	9.9	49.1		
Reported Tax Expense	A\$m	0.0	0.0	0.0	0.0		
Normalised NPAT	A\$m	-36.0	6.9	7.4	36.8		
Abnormal / Exploration	A\$m	-12.0	2.3	2.5	12.3		
Reported Profit	A\$m	-48.0	9.2	9.9	49.1		
Minority	A\$m	0.0	0.0	0.0	0.0		
Profit Attrib	A\$m	-48.0	9.2	9.9	49.1		
<b>Balance Sheet</b>	<b>Unit</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>		
Cash	A\$m	25.4	12.7	26.8	55.9		
Other Current Assets	A\$m	17.9	37.1	22.3	26.4		
Total Current Assets	A\$m	43.3	49.8	49.2	82.3		
Property, Plant & Equip.	A\$m	10.6	143.7	175.5	177.5		
Exploration	A\$m	63.0	27.8	30.6	34.6		
Investments/other	A\$m	4.0	5.6	0.2	0.2		
Tot Non-Curr. Assets	A\$m	77.6	177.1	206.2	212.3		
Total Assets	A\$m	120.9	226.9	255.4	294.6		
Short Term Borrowings	A\$m	0.0	8.1	11.4	8.6		
Other	A\$m	8.2	27.0	12.5	14.1		
Total Curr. Liabilities	A\$m	8.2	35.1	23.9	22.7		
Long Term Borrowings	A\$m	0.0	38.6	15.2	6.6		
Other	A\$m	26.8	37.1	39.4	39.4		
Total Non-Curr. Liabil.	A\$m	26.8	75.7	54.6	46.0		
Total Liabilities	A\$m	35.0	110.8	78.6	68.7		
Net Assets	A\$m	85.9	116.1	176.8	225.9		
Net Debt	A\$m	-25.4	33.9	-0.2	-40.7		
<b>Cashflow</b>	<b>Unit</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>		
EBITDA		-47.6	17.2	33.5	75.9		
Chg working cap		41.1	-24.8	0.3	-2.6		
Operating Cashflow	A\$m	-6.5	-7.6	33.8	73.3		
Income Tax Paid	A\$m	0.0	0.0	0.0	0.0		
Interest & Other	A\$m	0.4	-0.3	-2.4	-0.6		
Operating Activities	A\$m	-6.1	-7.9	31.4	72.7		
Property, Plant & Equip.	A\$m	-3.9	-73.3	-52.9	-28.2		
Exploration and Devel.	A\$m	-4.8	-6.0	-2.8	-4.0		
Other	A\$m	0.6	15.6	0.0	0.0		
Investment Activities	A\$m	-8.1	-63.6	-55.7	-32.2		
Borrowings	A\$m	-0.8	38.5	-20.0	-11.4		
Equity	A\$m	19.8	21.2	58.4	0.0		
Dividends Paid	A\$m	0.0	0.0	0.0	0.0		
Financing Activities	A\$m	19.0	58.8	38.4	-11.4		
Net Cashflow	A\$m	4.8	-12.7	14.1	29.1		
<b>Shares</b>	<b>Unit</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>		
Ordinary Shares - End	m	491.6	553.6	763.3	763.3		
Ordinary Shares - Weighted	m	460.1	522.6	658.4	763.3		
Diluted Shares - Weighted	m	460.1	522.6	658.4	763.3		
<b>Ratio Analysis</b>	<b>Unit</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>		
Cashflow Per Share	A\$ cps	-1.3	-1.5	4.8	9.5		
Cashflow Multiple	x	-23.9	-20.8	6.6	3.3		
Earnings Per Share	A\$ cps	-10.4	1.8	1.5	6.4		
Price to Earnings Ratio	x	-3.0	17.9	20.9	4.9		
Dividends Per Share	AUD	-	-	-	-		
Dividend Yield	%	0.0%	0.0%	0.0%	0.0%		
Net Debt / Net Debt + Equity	%	-42%	23%	0%	-22%		
Interest Cover	X	na	10.9	5.1	80.1		
Return on Equity	%	na	6%	4%	16%		
EV/EBITDA		na	16.0	7.2	2.6		
<b>Directors</b>							
Peter Sullivan (Non-Exec Chairman, Zeta nominee)					Level 9, 553 Hay St Perth, WA, 6000 +61 8 9225 0999 +61 8 9421 1008 www.panoramicresources.com		
Victor Rajasooriar (MD & CEO)							
Nick Cernotta (Non-Exec Director)							
Rebecca Hayward (Non-Exec Director)							
Gillian Swaby (Non-Exec Director)							
David Hume (GM Operations)							
Mike Ball (CFO)	Sameer Purphit (Planning)	Tim Shervington (Com Man)					
John Hicks (GM Expl)	Rochelle Lampard (GM HR)	Glenn Kelly (Process Man)					
<b>Top Shareholders (est)</b>					<b>M</b>	<b>%</b>	
Zeta Resources					268.4	35.2%	
<b>Reserves &amp; Resources</b>	<b>Mt</b>	<b>Ni</b>	<b>Cu</b>	<b>Co</b>	<b>Ni kt</b>	<b>Cu kt</b>	<b>Co kt</b>
<b>Savannah Reserve</b>							
- Above 900 Fault	1.4	1.16%	0.75%	0.06%	15.9	10.3	0.8
- Savannah North	6.7	1.42%	0.61%	0.10%	94.5	40.9	6.7
<b>Total</b>	<b>8.0</b>	<b>1.38%</b>	<b>0.64%</b>	<b>0.09%</b>	<b>110.4</b>	<b>51.2</b>	<b>7.5</b>
<b>Savannah Resource</b>	<b>Mt</b>	<b>Ni%</b>	<b>Cu%</b>	<b>Co%</b>	<b>Ni kt</b>	<b>Cu kt</b>	<b>Co kt</b>
- Savannah	2.7	1.55%	0.95%	0.08%	42.0	25.8	2.2
- Savannah North	10.3	1.70%	0.72%	0.12%	175.0	74.3	12.6
<b>Total</b>	<b>13.0</b>	<b>1.67%</b>	<b>0.77%</b>	<b>0.11%</b>	<b>217.0</b>	<b>100.1</b>	<b>14.8</b>
<b>Savannah Mine Plan</b>	<b>7.23</b>	<b>1.39%</b>	<b>0.66%</b>	<b>0.09%</b>	<b>83.7</b>	<b>46.9</b>	<b>6.1</b>
<b>Savannah</b>	<b>Unit</b>	<b>Jun 17</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	
Ore Milled	Mt pa		0.00	0.26	0.70	0.94	
Produced Metal Ni	Kt		0.0	2.4	7.0	10.0	
Payable metal Ni	Kt		0.0	1.7	4.8	7.0	
Payable metal Cu	Kt		0.0	0.6	2.0	2.5	
Payable metal Co	Kt		0.0	0.1	0.2	0.3	
Payable metal Ni eq	Kt		0.0	2.3	6.1	9.0	
Cost per milled tonne	\$A/t		-	114	118	103	
EBITDA / tonne milled ore	\$A/t		-	22	56	88	
Cash Cost inc Royalty + cred	\$A/lb Ni eq		-	7.3	7.2	5.7	
Modelled mining inventory	Mt		7.8	7.7	7.0	6.1	
Modelled mining inventory	%		1.4%	1.4%	1.4%	1.4%	
<b>Group</b>	<b>Unit</b>	<b>Jun 17</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	
Nickel Production	kt		-	2.4	7.0	10.0	
Payable Nickel	kt		-	1.7	4.8	7.0	
Payable Nickel Eq	kt		-	2.3	6.1	9.0	
Total costs	\$A/lb Ni Eq		-	2.0	7.3	6.0	
Ore "milled"	Mt		-	0.3	0.7	0.9	
Cost per "milled" tonne	\$A/t		-	39.1	142.0	126.5	
<b>Price Assumptions</b>	<b>Unit</b>	<b>Jun 17</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	
AUD/USD	A\$/US\$	0.75	0.77	0.72	0.68	0.70	
Nickel	\$US/lb	4.49	5.59	5.41	6.51	6.56	
Copper	\$US/lb	2.52	3.06	2.79	2.75	2.97	
Cobalt	\$US/lb	22.5	36.5	23.8	16.0	18.7	
<b>Hedging</b>		<b>Jun 17</b>	<b>Jun 18</b>	<b>Jun 19</b>	<b>Jun 20</b>	<b>Jun 21</b>	
Hedges maturing?		No	No	No	No	Yes	
<b>Sensitivity Analysis</b>	<b>Valuation</b>		<b>FY20 NPAT</b>				
<b>Base Case</b>	<b>0.46</b>		<b>7.4</b>				
Spot Prices	0.40 (-12.5%)		6.7 (-10.1%)				
- Spot USD/AUD 0.70, Ni US\$6.46/lb, Cu US\$2.81/lb, Co US\$14.74/lb							
AUD/USD +/-10%	0.35 / 0.60 (-24.6% / 29.1%)		-1.0 / 17.7 (-112.9% / 138.0%)				
Nickel +/-10%	0.54 / 0.38 (17.7% / -18.6%)		13.1 / 1.8 (75.8% / -75.8%)				
Production +/-10%	0.61 / 0.31 (32.4% / -32.8%)		15.9 / -1.0 (113.7% / -113.7%)				
Operating Costs +/-10%	0.40 / 0.52 (-14.0% / 13.5%)		1.2 / 13.7 (-84.2% / 84.2%)				
<b>Unpaid Capital</b>	na						
<b>Share Price Valuation (NAV)</b>	<b>Risked Est. A\$m</b>		<b>Est. A\$/share</b>				
100% Savannah (pre-tax NAV at disc. rate of 10%)	382		0.50				
Other Exploration	38		0.05				
Horizon Gold (HRN) -51%	12		0.02				
Forwards	0		0.00				
Corporate Overheads	-39		-0.05				
Net Cash (Debt)	12		0.02				
Tax (NPV future liability)	-33		-0.04				
Options & Other Equity	0		0.00				
Hedging	-20		-0.03				
<b>Total</b>	<b>353</b>		<b>0.46</b>				
Analyst: Mike Millikan					Last Updated: 31/12/2019		
+61 8 9268 2805							
Sources: IRESS, Company Information, Hartleys Research							

## EARNINGS CHANGES

*Adjustments have been made to our earnings*

*Our earnings are yet to include the funds that are expected from the sale of Thunder Bay North for C\$9M, will we update once the transaction completes*

We have adjusted our earnings. The changes are summarised below.

**Fig. 1: Hartleys Earnings Adjustment**

	30 Jun 18	30 Jun 19	30 Jun 20			30 Jun 21		
	Actual	Actual	Old Guide kt	New kt	% diff	Old Guide kt	New kt	% diff
<b>Company Guidance</b>								
Nickel (kt) -prod	0.0	2.5	9.5-10	7.0-7.5	-26%	11.0-12.0	10.0-11.0	-9%
Copper (kt) - prod	0.0	1.5	5.8-6.0	4.5-5.0	-20%	5.5-6.0	5.0-6.0	-9%
Cobalt (kt) -prod	0.0	0.1	0.6-0.65	0.4-0.45	-32%	0.6-0.7	0.6-0.65	-7%
<b>Hartleys Estimates</b>								
Nickel (kt) -prod	0.0	2.4	8.4	7.0	-16.5%	10.9	10.0	-8.0%
Nickel (kt) -pay	0.0	1.7	5.8	4.8	-16.9%	7.6	7.0	-8.0%
Copper (kt) - pay	0.0	0.6	1.9	2.0	4.9%	2.4	2.5	5.0%
Cobalt (kt) - pay	<b>0.0</b>	0.1	0.3	0.2	-19.4%	0.4	0.3	-20.0%
<b>Net Revenue</b>	1.2	27.4	153.9	132.3	-14.0%	210.8	194.8	-7.6%
<b>Total Costs</b>	-48.8	-10.3	-99.6	-98.8	-0.8%	-119.9	-118.9	-0.8%
<b>EBITDA</b>	<b>-47.6</b>	<b>17.2</b>	<b>54.3</b>	<b>33.5</b>	<b>-38.3%</b>	<b>90.8</b>	<b>75.9</b>	<b>-16.4%</b>
- margin	na	0.6	0.4	0.3	-28.2%	0.4	0.4	-9.6%
Depreciation/Amort	0.0	-7.0	-20.2	-21.2	5.0%	-23.9	-26.2	9.7%
<b>EBIT</b>	<b>-47.6</b>	<b>10.2</b>	<b>34.1</b>	<b>12.3</b>	<b>-63.9%</b>	<b>66.9</b>	<b>49.7</b>	<b>-25.8%</b>
Net Interest	-0.5	-0.9	-2.1	-2.4	16.2%	-0.3	-0.6	96.5%
<b>Norm. Pre-Tax Profit</b>	<b>-48.0</b>	<b>9.2</b>	<b>32.1</b>	<b>9.9</b>	<b>-69.1%</b>	<b>66.6</b>	<b>49.1</b>	<b>-26.3%</b>
Reported Tax Expense	0.0	0.0	0.0	0.0	nm	0.0	0.0	nm
<b>Normalised NPAT</b>	<b>-36.0</b>	<b>6.9</b>	<b>24.0</b>	<b>7.4</b>	<b>-69.1%</b>	<b>50.0</b>	<b>36.8</b>	<b>-26.3%</b>
Abnormal / Exploration	-12.0	2.3	8.0	2.5	-69.1%	16.7	12.3	-26.3%
Reported Profit	-48.0	9.2	32.1	9.9	-69.1%	66.6	49.1	-26.3%
Capex & Explor.	-9	-79	-39	-56	43.9%	-34	-32	-5.2%
Net Debt (Cash)	-25	34	22	0	-101.0%	-56	-41	-27.5%

Source: Hartleys Estimates

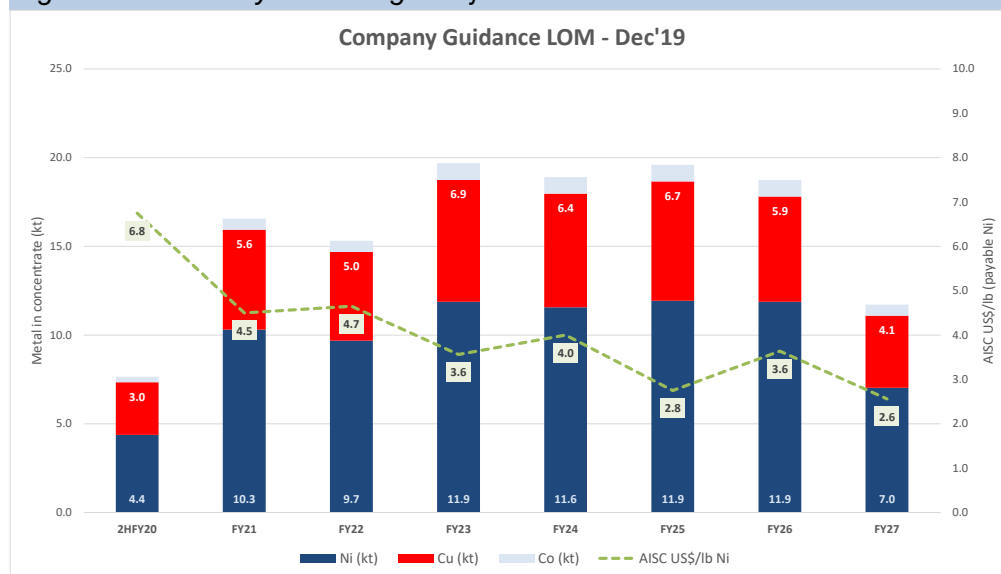
## REVISED LIFE-OF-MINE (LOM) PLAN

The Savannah **LOM production plan** has been updated for slightly lower tonnes (-5%) and grade (-2%) at higher cost (+8% on AISC) relative to the Oct'17 Feasibility Study (FS). However, PAN sees significant upside potential to increase the mining inventory over time, especially given the recent drill success at Savannah North.

***FY20 production guidance** has been downgraded to 7.0-7.5kt contained nickel, 4.5-5.0kt contained copper and 0.4-0.45kt contained cobalt*

*Our FY20 nickel production forecast has been lowered to ~7.0kt Ni (previously ~8.4kt Ni).*

**Fig. 2: Hartleys Earnings Adjustment**



Source: Panoramic Resources Ltd, Hartleys Estimates; Remains subject to change

## SAVANNAH NICKEL-COPPER MINE, KIMBERLEY

The Savannah Project is located 240km south of Kununurra in the East Kimberley region of Western Australia. The project consists of nickel sulphide orebodies (Savannah and Savannah North), underground mine, processing plant and associated infrastructure. The mine commenced operation in 2004 and was placed on care and maintenance in May 2016, and has now restarted.

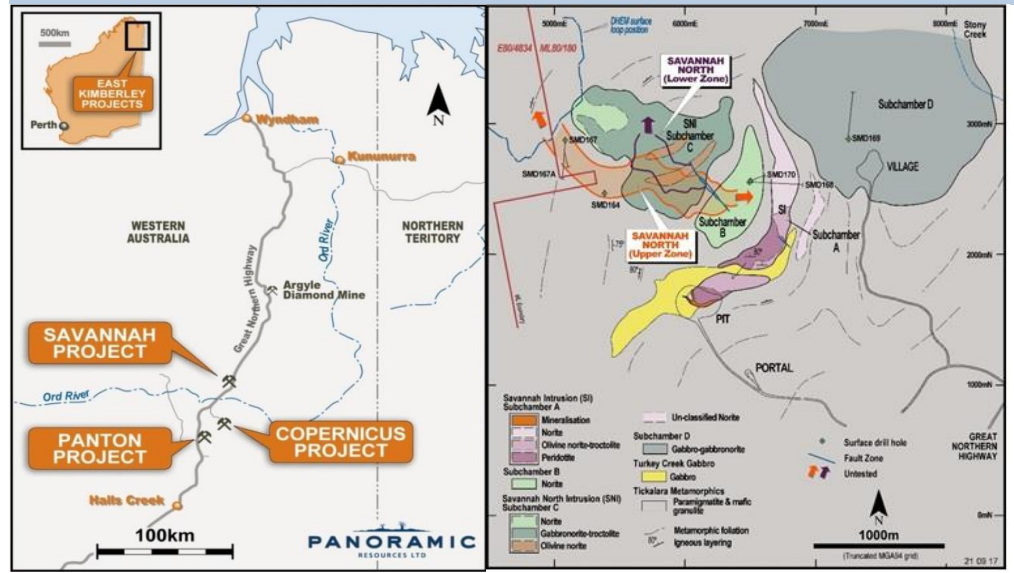
*Savannah Project is located 240km south of Kununurra in the East Kimberley region of Western Australia*

*Savannah was placed on care and maintenance in May 2016, having been continually operated since commissioning in late 2004*

*The first bulk concentrate shipment was delivered in Feb'19*

*The Savannah North discovery has been a game changer for the restart of operations, located ~600m from existing underground development and adds mine life beyond 7 years*

**Fig. 3: Savannah Project Location (LHS), Key Intrusions (RHS)**



Source: Panoramic Resources Ltd

Underground mining and ore processing recommenced in the DecQ. The first bulk (Ni-Cu-Co) concentrate shipment was delivered in Feb'19. The project is expected to ramp-up to full production with forecast annual production of ~11kt nickel, +6kt copper and +0.6kt cobalt contained in concentrate.

PAN recently reported a challenging SepQ for the Savannah nickel-copper mine. The Company had previously reported below budget mining performance, some relating to a localised seismic event in July, which restricted access to some areas, also intermittent manning issues (current tight labour conditions) which impacted productivity. Nickel production and sales were lower qoq with costs some 21% higher.

**Fig. 4: Savannah Production - SepQ**

Savannah		Units	JunQ	SepQ	FY20 ytd
<b>Mining</b>	Ore mined	dmt	141,613	119,334	119,334
	Ni grade	%	1.27	1.24	1.24
	Ni metal contained	dmt	1,797	1.48	1.48
	Cu grade	%	0.61	0.70	0.70
	Co grade	%	0.06	0.06	0.06
<b>Milling</b>	Ore milled	dmt	140,806	120,771	120,771
	Ni grade	%	1.27	1.31	1.31
	Cu grade	%	0.64	0.76	0.76
	Co grade	%	0.06	0.06	0.06
	Ni Recovery	%	84.8	85.1	85.1
	Cu Recovery	%	91.1	93.1	93.1
<b>Concentrate</b>	Concentrate	dmt	21,591	17,195	17,195
	Ni grade	%	7.03	7.8	7.8
	Ni metal contained	dmt	1,518	1,342	1,342
	Cu grade	%	3.77	4.97	4.97
	Cu metal contained	dmt	814	855	855
	Co grade	%	0.37	0.37	0.37
	Co metal contained	dmt	80	64	64
<b>Shipments</b>	Concentrate	dmt	21,467	15,734	15,734
	Ni grade	%	6.85	7.25	7.25
	Ni metal contained	dmt	1,471	1,141	1,141
	Cu grade	%	3.4	3.85	3.85
	Cu metal contained	dmt	731	606	606
	Co grade	%	0.36	0.37	0.37
	Co metal contained	dmt	78	59	59
<b>Costs (pay)</b>	Mining	A\$/lb	4.58	4.71	4.71
	Milling	A\$/lb	2.28	3.02	3.02
	Admin	A\$/lb	2.19	2.93	2.93
<b>Op cash costs</b>		<b>A\$/lb</b>	<b>9.05</b>	<b>10.66</b>	<b>10.66</b>
	Port/Ship/Haulage	A\$/lb	0.96	1.03	1.03
	By product credits	A\$/lb	-2.21	-2.27	-2.27
	Royalties	A\$/lb	0.49	0.57	0.57
<b>Total op costs (pay)</b>		<b>A\$/lb</b>	<b>8.29</b>	<b>9.99</b>	<b>9.99</b>
	Total op costs (pay)	US\$/lb	5.80	6.85	6.85
<b>Dev costs</b>		<b>A\$/lb</b>	<b>2.81</b>	<b>2.56</b>	<b>2.56</b>
<b>Cost</b>		<b>A\$/lb</b>	<b>11.1</b>	<b>12.6</b>	<b>12.6</b>

Source: Panoramic Resources Ltd

PAN recently reported a challenging quarter (SepQ) for the Savannah nickel-copper mine

Concentrate shipped during the quarter was 27% lower qoq

# VALUATION AND PRICE TARGET

## VALUATION

The Savannah operation has been restarted and we assume targeted production levels can be achieved and sustained. We have rising nickel prices which implies PAN could generate EBITDA ~A\$34M in FY20 and ~\$76M in FY21.

**Fig. 5: Hartleys Valuation Assumptions**

	FS Feb-17	FS Oct-17	Update Dec'19	Hartleys Base	Hartleys Spot	Hartleys Spot v Base
<u>Inventory</u>						
Mt	8.25	7.65	7.23	7.8		
Ni Grade	1.38%	1.42%	1.39%	1.36%		
Cu Grade	0.65%	0.68%	0.66%	0.66%		
Co Grade	0.09%	0.10%	0.09%	0.09%		
Mine Life (yrs)	10.3	8.3	7.5	7.5		
Throughput (Mt)	0.8	0.9	0.9	1.0		
Startup Capex (A\$M)	20	36	40	62.9		
<u>Contained (Mt)</u>						
Ni	0.114	0.109	0.100	0.106		
Cu	0.054	0.052	0.048	0.051		
Co	0.008	0.007	0.007	0.007		
<u>Recoveries (%)</u>						
Ni	87%	83%	83%	83%		
Cu	96%	98%	98%	95%		
Co	90%	92%	94%	88%		
<u>Recovered (Mt)</u>						
Ni	0.099	0.090	0.084	0.088		
Cu	0.052	0.051	0.047	0.048		
Co	0.007	0.007	0.006	0.006		
Ni Equiv	0.152	0.152	0.137	0.139		
<u>Annual Prod (ktpa)</u>						
Ni	9.7	10.8	11.2	11.7	9.2	
Cu	5.0	6.1	6.3	6.5	5.1	
Co	0.7	0.8	0.8	0.8	0.6	
Ni Equiv	14.8	18.3	18.2	18.6	14.5	-22.1%
<u>Payable Prod (Mt)</u>						
Ni	0.064	0.059	0.054	0.061	0.061	0.0%
Cu	0.021	0.020	0.019	0.022	0.022	0.0%
Co	0.003	0.003	0.002	0.002	0.002	0.0%
Ni Equiv.	0.085	0.083	0.054	0.083	0.083	-0.8%
Total Costs	957	918		960	951	-0.8%
- pa	93	108		128	100	-21.7%
<u>Cost per tonne ore</u>						
	116	120		123	122	-0.8%
<u>C1 cost</u>						
- A\$/equiv	5.08	5.00		5.22	5.22	-0.1%
- US\$/equiv	3.74	3.75		3.79	3.65	-3.6%
<u>C1 cost</u>						
- A\$/credit	4.78	4.27		4.56	4.79	5.1%
- US\$/credit	3.52	3.20		3.31	3.36	1.4%
<u>Selling Prices (US\$)</u>						
Ni	6.00	6.75	6.19	7.05	6.43	-8.9%
Cu	2.57	2.72	2.66	2.96	2.80	-5.6%
Co	14.42	26.00	16.01	20.15	14.74	-26.8%
AUD/USD	0.74	0.75	0.68	0.73	0.70	-3.6%
<u>Selling Prices (A\$)</u>						
Ni	8.2	9.0	9.1	9.7	9.18	-5.5%
Cu	3.5	3.6	3.9	4.1	3.99	-2.1%
Co	19.6	34.7	23.5	27.7	21.05	-24.1%
Revenue	1,500	1,720		1,878	1,805	-3.9%
Total Costs	-957	-918		-960	-951	-0.8%
EBITDA	543.0	802.0		918.8	853.8	-7.1%
- pa	53.0	96.6		122.5	89.9	-26.6%
Valuation (pre-tax)				382.4	334.4	-12.6%

*Savannah production continues to ramp up*

Source: Hartleys Estimates, Panoramic Resources Ltd (FS - Feb'17, Oct'17, Dec'19)

**Fig. 6: Key assumptions and risks for valuation**

Assumption	Risk of not realising assumption	Risk to valuation if assumption is incorrect	Comment
Sustainable nickel prices	Moderate	Extreme	We had assumed rising nickel prices in the near term, which are below current spot levels.
Restart of Savannah and ~8 year mine life	Moderate	Extreme	We assume Savannah is ramped up to full production, and fed predominantly with ore from Savannah North.
Exploration upside potential	Moderate	Low	We do not include much exploration potential, mainly to be conservative.
Financing Risks	Moderate	Moderate	A\$20M of the A\$40M SFA through Macquarie Bank has been repaid through the recent equity raise. Financial risks have been lowered but are still present. The currently open equity raise provides additional working capital to ramp-up to targeted production levels. We assume debt can be repaid, as per the amended repayment schedule.
IGO takeover offer for PAN lapses	Low	Low	Our PAN valuation was not sensitive to the current IGO off-market bid, as we model nickel, copper and cobalt production at different cost and commodity price assumptions (all of which remain subject to change and adjustment). Our latest price now assumes the takeover offer by IGO lapses. The offer is expected to lapse 17Jan'20.

**Conclusion**

*Commodity prices (largely nickel, with copper and cobalt) are the biggest risk to our valuation. Financial risks are somewhat mitigated by an improved cash position and cash flow projections.*

Source: Hartleys Research

## PRICE TARGET

Our latest PAN Price Target of 40cps (down from 48cps). We see additional value for PAN, if and when targeted production levels are reached and sustained.

We maintain our **Neutral** recommendation due to the current equity raise, production challenges, and recent Board and Management changes. In addition, the condition the takeover offer by IGO for PAN is expected to lapse in early Jan'20.

**Fig. 7: PAN Price Target**

Price Target Methodology	Weighting	Spot	12 mth out
NPV Base Case	45%	\$0.46	\$0.46
NPV Base Case at Spot Commodity and FX prices	30%	\$0.40	\$0.40
NPV Base Case less exploration value	15%	\$0.41	\$0.41
Net Cash	10%	\$0.00	\$0.05
<b>Risk weighted composite</b>		<b>\$0.39</b>	
<b>12 Months Price Target</b>		<b>\$0.40</b>	
Share price - Last		\$0.315	
<b>12 mth total return (% to 12mth target + dividend)</b>		<b>26%</b>	

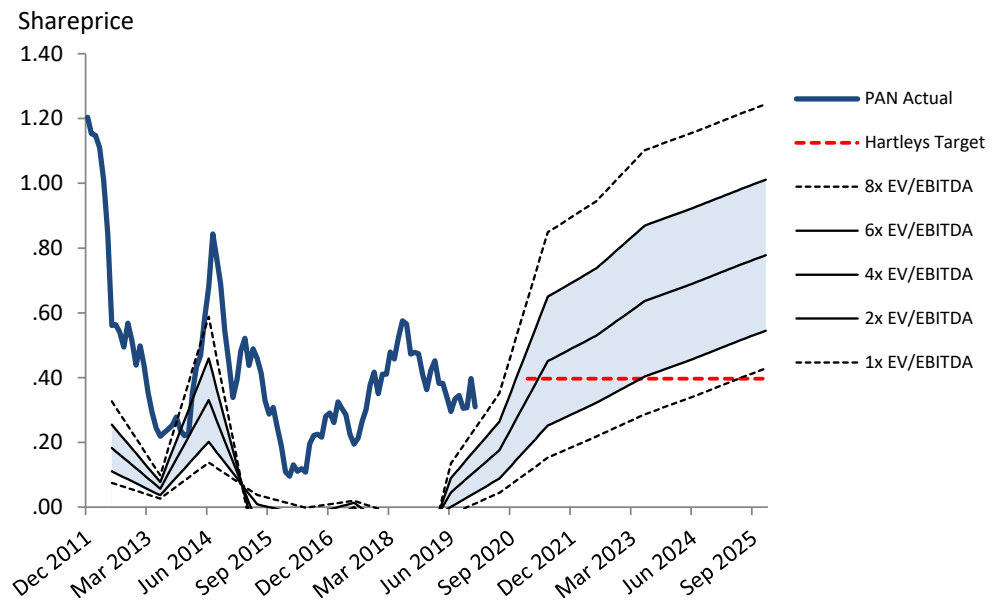
Source: Hartleys Estimate

*Our latest price target is 40cps (from 48cps), still highlighting 26% upside to current trading levels*

*We maintain our **Neutral** recommendation due to the current production challenges, and recent Board and Management changes*

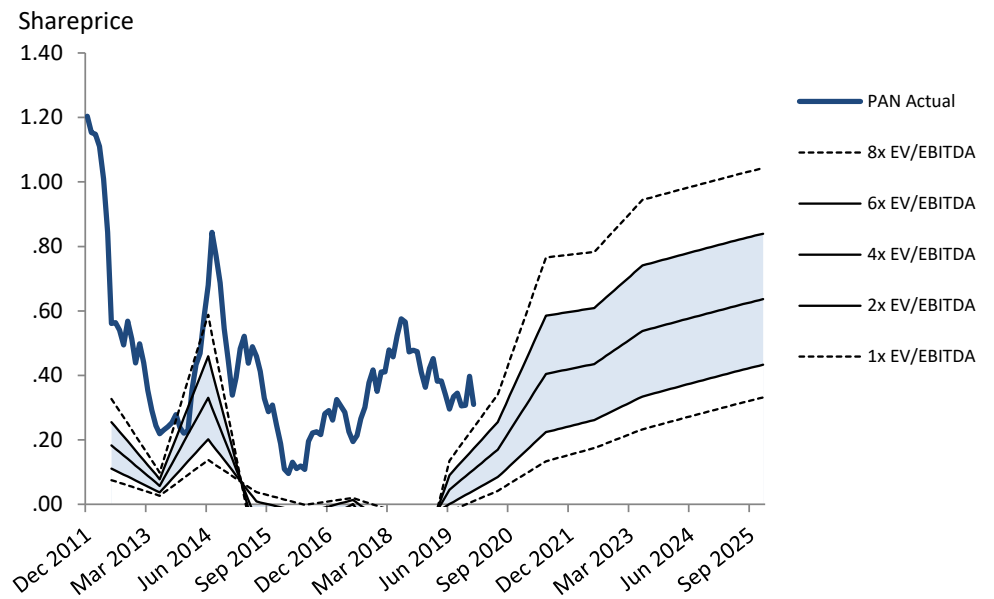
## EV/EBITDA BANDS

**Fig. 8:** *Using Hartleys base case commodity forecasts*



Source: Hartleys Estimates, IRESS

**Fig. 9:** *Using spot commodity prices*



Source: Hartleys Estimates, IRESS



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## Hartleys Recommendation Categories

Buy	Share price appreciation anticipated.
Accumulate	Share price appreciation anticipated but the risk/reward is not as attractive as a "Buy". Alternatively, for the share price to rise it may be contingent on the outcome of an uncertain or distant event. Analyst will often indicate a price level at which it may become a "Buy".
Neutral	Take no action. Upside & downside risk/reward is evenly balanced.
Reduce / Take profits	It is anticipated to be unlikely that there will be gains over the investment time horizon but there is a possibility of some price weakness over that period.
Sell	Significant price depreciation anticipated.
No Rating	No recommendation.
Speculative Buy	Share price could be volatile. While it is anticipated that, on a risk/reward basis, an investment is attractive, there is at least one identifiable risk that has a meaningful possibility of occurring, which, if it did occur, could lead to significant share price reduction. Consequently, the investment is considered high risk.

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Hartleys has completed a placement and Underwriting of an Entitlement Offer in the last 12 months for Panoramic Resources Limited ("PAN"), for which it has earned fees.

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