



Panoramic Resources Ltd (PAN.ASX)

Savannah Raise Boring on Track for Early Completion

Event:

- Raise bore updates; upgraded Ni price, earnings, valuation, and PT.

Investment Highlights:

- Within budget and ahead of schedule, raise boring update continues to demonstrate positive progress:** back reaming of the vent raise continues to progress ahead of schedule, with 253m completed so far. Productivity remains high, with specialist contractor RUC Mining achieving close to 9m per day, almost treble the budgeted rates.
- Raise boring completion brought forward to CY20e end:** better than expected progress has now seen the company bring forward expectation of completion of the raise boring to December 2020 (prior 1Q21e), noting there is 101m of reaming remaining, and effectively having completed its CY20e program in mid-November. The company notes ground conditions are excellent.
- Lateral UG development also ahead of schedule:** Barmenco has opened up three levels at Savannah with an additional level to be intersected next week. Barmenco's progress is a month ahead of a seven-month schedule.
- Cash of \$27M at 30 September 2020 and no debt.** We expect the Panton Project divestment (previously announced 12 October) to close in December and deliver \$12M cash to the company.

Earnings and Valuation:

- We have updated forecast earnings to **-\$5M, \$7M and \$53M in FY21-23e (prior -\$13M, -\$9M, and \$12M)**, and EPS to **-0.2, 0.3, and 2.6cps (prior -0.6, -0.4, and 0.6cps)**, respectively.
- We have **increased our LT nickel price by 16% to US\$8.50/lb (prior US\$7.35/lb) and upgraded it over FY21-23e by 8%, 9%, and 16%**. We are constructive in our nickel outlook and hold the view that both growing class I nickel demand from EV and battery growth, as well as depletion and limited new sulphide supply discovery underpins our bullish forecasts. We have also increased our LT copper price to US\$3.22/lb (prior US\$3.10/lb) and 1%, 1%, -1% in FY21-23e. We have AUDUSD changes of 4%, 6%, 5% in FY21-23e and LT of 0.75.
- We have an increased valuation of \$0.23 per PAN share (prior \$0.14)**, as a result of our updated assumptions. We continue to assume restart in Q2 CY21e, even as raise boring and underground development appear to be ahead of schedule, and continue to assume a twelve-month ramp, and an increased LT nickel price of US\$8.50/lb.

Recommendation:

- We maintain our **Buy recommendation of PAN with an increased price target of \$0.23/share** (prior \$0.14), due to its long life, high grade nickel sulphide asset, existing infrastructure, and exploration potential.
- We continue to note the regular encouraging updates from Savannah on the raise boring and development program are **management's methodical progress through derisking milestones**, which in turn derisk Savannah restart.
- Catalysts for the stock** include: 1) underground development progress, especially critical development milestones including vent raise; 2) operational restart in mid Q2 CY21e; 3) updates on exploration.

Disclosure

The analyst does not own PAN securities. Foster Stockbroking and associated entities (excluding Cranport Pty Ltd) own 10,584,679 PAN shares. Cranport Pty Ltd owns 24,918,434 PAN shares. Refer to end of report for details.

Recommendation	Buy			
Previous	Buy			
Risk	High			
Price Target (A\$/share)	\$0.23			
Previous	\$0.14			
Share Price (A\$)	\$0.145			
ASX Code	PAN			
52 week low - high (A\$)	0.065-0.315			
Capital structure				
Shares on Issue (M)	2,050.9			
Market Cap, undil. (A\$M)	297			
Net Cash/(Debt) (A\$M)	27			
EV (A\$M)	271			
12mth Av Daily Volume ('000)	6,243			
Y/e Jun A\$	FY20a	FY21e	FY22e	FY23e
Sales, \$M	69.1	1.3	86.0	200.8
EBITDA adj. \$M	-24.8	-4.7	14.7	60.9
NPAT adj. \$M	-50.5	-4.8	7.1	53.2
EPS adj c	-5.1	-0.2	0.3	2.6
PER (x)	nm	nm	nm	nm
Dividend c	0.0	0.0	0.0	0.0

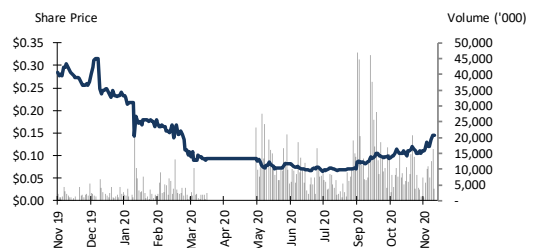
Board

Nicholas Cernotta	Non-Executive Chairman
Rebecca Hayward	Deputy Chairman
Gillian Swaby	Director
Peter Sullivan	Director
Victor Rajasooriar	Managing Director & CEO

Major Shareholders

Western Areas Ltd	19.9%
Zeta Resources Ltd	17.6%

Share Price Graph



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Panoramic Resources (PAN)

Full Year Ended 30 June

Profit and Loss A\$M	2019a	2020a	2021e	2022e	2023e
Revenue	25	69	1	86	201
Other income	3	11	0	0	0
Operating Costs	31	105	4	68	136
EBITDA	-3	-25	-5	15	61
D&A	7	18	0	8	8
EBIT	-10	-43	-5	7	53
Net Interest exp / (income)	1	7	-1	-1	-1
PBT	-12	-50	-4	8	54
Tax exp / (benefit) adj.	0	0	0	0	0
NPAT underlying	-12	-50	-4	8	54
Non-recurring items	-21	37	0	0	0
NPAT reported	9	-88	-4	8	54
EPS diluted, adj. cps	-1.6	-5.1	-0.2	0.4	2.6

Cashflow A\$M	2019a	2020a	2021e	2022e	2023e
EBITDA	-3	-25	-5	15	61
Change in WC	-5	-3	40	5	-9
Tax paid	0	0	0	0	0
Other	0	0	0	25	0
Net interest	0	-6	1	1	1
Share based payments	1	0	0	0	0
Operating Cashflow	-8	-34	36	46	53
Purchase of PP&E	-79	-43	-25	-35	-27
Acquisitions	0	9	0	0	0
Capitalised expenses	0	-2	0	-1	1
Investments	15	0	0	0	0
Investing Cashflow	-64	-36	-25	-36	-26
Equity issue	21	143	0	0	0
Debt proceeds	40	19	0	0	0
Debt repayments	-1	-69	0	0	0
Other	-1	-5	0	0	0
Financing Cashflow	59	88	0	0	0
Net Cashflow	-13	18	11	10	27

Balance Sheet A\$M	2019a	2020a	2021e	2022e	2023e
Cash	13	31	42	52	79
Receivables	19	11	0	7	17
PPE	144	138	163	190	209
Capitalised exploration	28	13	13	14	20
Intangibles	0	0	0	0	0
Other	23	11	11	11	10
Total Assets	227	204	228	273	334
Accounts payable	22	3	4	16	17
Provisions	34	27	30	30	32
Debt	47	0	0	0	0
Other	8	7	60	58	62
Total Liabilities	112	38	67	104	111
Reserves and capital	231	376	376	376	376
Retained earnings	-122	-210	-214	-206	-152
NCI	6	0	0	0	0
Total Equity	115	166	162	170	223

Source: Company; Foster Stockbroking estimates

Financial Metrics	2019a	2020a	2021e	2022e	2023e
Sales growth, %	nm	175%	-98%	nm	133%
EPS growth, %	-20%	210%	-96%	-282%	597%
EBITDA margin, %	-13%	-36%	nm	17%	30%
EBIT margin, %	-41%	-63%	nm	8%	26%
Gearing (ND/ND+E)	23%	-23%	-35%	-44%	-55%
Interest Cover (EBIT/net int)	7.4x	6.0x	-7.8x	8.1x	50.8x
Average ROE %	-15%	-36%	-3%	5%	27%
Average ROA %	-8%	-20%	-2%	3%	17%
Wtd ave shares (M)	716	999	2,051	2,051	2,051
Wtd ave share diluted (M)	716	999	2,080	2,080	2,080

Commodity Assumptions	2019a	2020a	2021e	2022e	2023e
Prices					
Nickel, US\$/lb	6.06	6.21	7.02	7.48	8.02
Copper, US\$/lb	2.89	2.73	2.74	2.89	2.94
Cobalt, US\$/lb	24.10	13.16	12.37	12.74	16.60
AUDUSD	0.73	0.69	0.72	0.74	0.75
Production contained metals					
Nickel, kt	2.4	3.4	0.1	4.0	8.5
Copper, kt	1.5	2.2	0.0	2.6	4.9
Cobalt, kt	0.1	0.2	0.0	0.1	0.6
Costs					
C1 payable Ni, US\$/lb	4.62	9.38	5.83	4.71	4.11
AISC payable Ni, US\$/lb	6.26	12.15	35.59	5.63	4.78

Capital structure current	M
Ordinary shares	2,051
Options	29
Fully diluted	2,079

Company Valuation	A\$M	A\$/sh
DCF, WACC 10% nominal		
Segment		
Savannah	414	\$0.20
Exploration	33	\$0.02
Corporate	-22	-\$0.01
Net cash (debt)	39	\$0.02
Options	5	\$0.00
Total	468	\$0.23

JORC Resources and Reserves	Ore, Mt	Ni	Cu	Co
Savannah (100%)				
Reserves	8.3	1.2%	0.6%	0.1%
Resources	13.5	1.6%	0.7%	0.1%



RISKS

The following risks may negatively impact the valuation and earnings of PAN:

- **Resource risk.** There is a risk that in the future resources may be negatively revised, impacting the size and quality of the projects.
- **Sovereign risk.** Any change in government, policy, legislation, or fiscal regimes of Australia, might impact the ownership, financing, permitting, or economics of PAN's business and valuation.
- **Commodity price and currency risk.** Commodity price declines may negatively impact revenues and profitability of PAN's project. PAN's share price is denominated in A\$, while its commodities are priced in US\$. Any increase in the A\$ may reduce translational impact of US\$ into A\$.
- **Operating risk.** Operational issues can occur during the mining, processing, transporting, and selling of the product that has the ability to impact revenues, costs, and profit negatively.
- **Financing and dilution risk.** PAN is not currently generating earnings, and might require funds to advance its project. If the company is not able to source the requisite funding, it might require highly dilutive equity raising and/or debt that has the potential to dilute shareholders or increase the company's solvency risk.
- **Management risk and key person risk.** The loss of key executives may cause the performance of the business to deteriorate and a loss of investor confidence.
- **Economic risk.** Any downturn in economies in which PAN operates could cause lower revenue and earnings for PAN. Slowing economic growth globally may negatively impact PAN's earnings.



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Disclosure review. All the disclosures in the report have been reviewed and checked by Keith Quinn, Compliance Committee Member.