

# Panoramic Resources Limited

## (PAN \$0.13) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	9 <sup>th</sup> December 2020	\$0.17/sh ▲ from \$0.13/sh

### Savannah de-risking for restart ahead schedule

#### Investment case

A long-life (+12 years) nickel sulphide asset such as Savannah is rare, and with underground mining, processing and site infrastructure already in place, capital to recommence production appears only modest. PAN continues to de-risk the restart by recently completing the ventilation raise for Savannah North underground, which in the past has been problematic. In addition, underground development has been advanced with four levels now in place to support future mining. Next steps includes some ancillary works for the underground (paste lines), power upgrade and vent-fan refurbishment, which should see operations recommence in early 2H CY21. The balance sheet remains in good shape (solid cash, no debt), with some non-core assets divested adding cash. No hedging is in place providing good leverage to improving nickel and copper prices. The current LOM plan, while conservative, highlights value, which we anticipate will be optimised and enhanced prior to restart. Our latest price target has increased to 17cps (up from 13cps), and we maintain our Speculative Buy recommendation.

#### Key points

The restart of the Savannah nickel-copper operations continues to be de-risked, with the ventilation raise bore successfully completed ahead of schedule, and underground development at Savannah North well advanced with four levels now open for future mining.

- The ventilation works for the fresh air raise (FAR#3) is a key piece of underground infrastructure required to deliver the planned ore tonnes, for full-scale mining of the Savannah North orebody.
  - Work on the FAR#3 was suspended in Dec'19 due to ground stability issues.
  - To overcome these issues, PAN successfully completed a horizontal underground development drive to connect with the vertical ventilation shaft at the 1675 level, enabling the raise bore back-reaming to recommence in Oct'20.
  - Ground conditions were better than anticipated enabling high-productivity and some back-reaming rates of 8.7m/day vs the targeted 3m/day.
  - Ultimately the raise boring was completed in late Nov'20, some three months ahead of schedule (originally targeted for completion in the MarQ'21).
  - The final achieved diameter of the raise was 3.85m, which will provide enough fresh air for both full-scale mining in-line with the LOM plan.

Panoramic Resources Ltd	Year End 30 June	
Share Price	0.13	A\$/sh
Price Target	0.17	A\$/sh
Methodology		npv
Valuation	0.14	A\$/sh (npv 10% nom)

Shares on issue	2091	m, diluted *
Market Capitalisation	267	A\$m
Enterprise Value	237	A\$m
Debt	0	A\$m
Cash	31	A\$m
Largest Shareholder	Western Areas 19.9%	

Production F/Cast	2021f	2022f	2023f
Ni in conc. (kt)	0.0	5.2	8.9
Copper in conc. (kt)	0.0	2.8	5.3
Op cost (A\$/lb)	na	7.7	5.7

Assumptions	2021f	2022f	2023f
Ni Price assumed US\$/lb	7.13	8.00	8.00
Ni Price achieved A\$/lb	9.90	10.96	10.96
AUDUSD	0.72	0.73	0.73

Key Financials	2021f	2022f	2023f
Revenue (A\$m)	1	110	193
EBITDA (A\$m)	-8	21	68
NPAT (A\$m)	-8	5	27
Cashflow (A\$m)	-43	0	36

CFPS (Ac)	-2	0	2
P/CFPS (x)	na	na	7.5

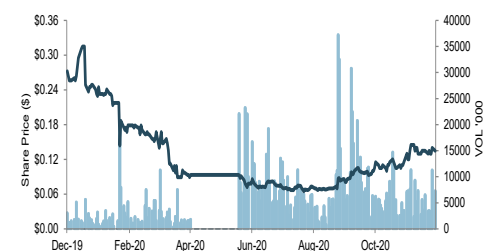
EPS (Ac)	0	0	1
EPS growth (%)	na	na	485%
PER (x)	na	59.8	10.2

EV:EBITDA (x)	na	13.1	3.5
EV:EBIT (x)	na	49.3	6.2

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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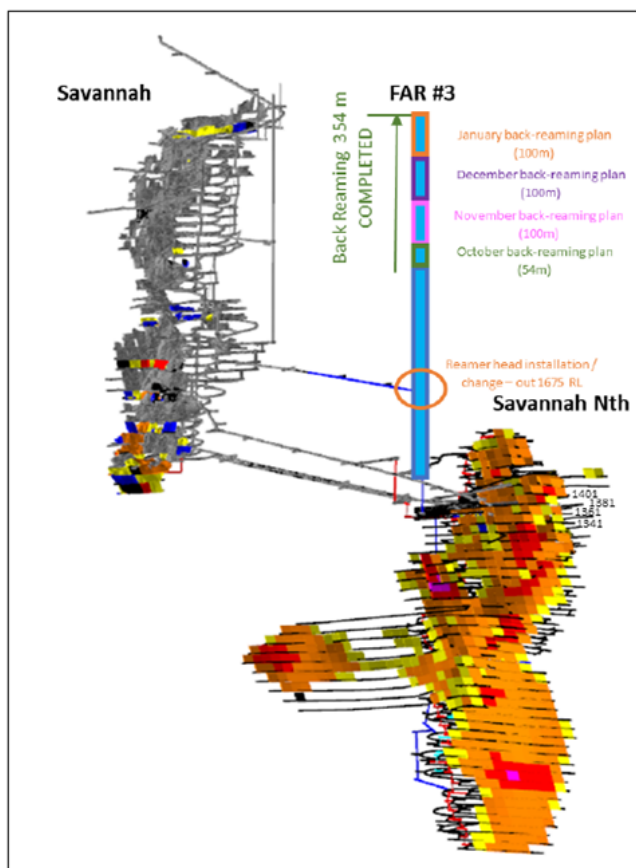
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Fig 1: Savannah North FAR#3 Completed



Source: PAN

- The initial underground lateral works for Savannah North have also been completed, with 4 mining levels (1401, 1381, 1361 and 1341) now open.
  - Additional horizontal development will be undertaken once a decision to restart operations has been made.
  - At this stage, underground mining contractors, Barmingo are expected back on site in early 2H CY21 (if not sooner), and are in the process of acquiring new mining equipment in preparation of the proposed mining activities.
  - The underground mining method in the current LOM plan is top-down long-hole open stoping utilising paste fill.
- Other projects to be completed prior to restart (from Jan-May'21) include: drilling of paste lines for Savannah North and pipe installation; a power upgrade and the refurbishment of the return air raise fan. The ancillary works are expected to take less than ~5 months to complete.

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- The current Savannah mine plan includes:
  - Mining inventory of 10.4Mt @ 1.22% Ni, 0.54% Cu and 0.08% Co for 127kt Ni, 56kt Cu and 8.5Kt Co contained metal.
    - Inventory derived from 80% reserves, and 20% from Inferred resources near reserves.
    - The mine plan uses conservative dilution parameters along with mining recoveries which has reduced the overall head grades.
  - Average annual production of 8,810t Ni, 4,579t Cu and 659t Co in concentrate over a +12 year mine life.
  - Average all-in-site costs of A\$7.54/lb payable Ni (net of copper and cobalt credits).
    - All-in costs at site cover all capital and operating costs over the LOM.
    - Forecast costs in the LOM includes updated contractor mining costs and slightly higher milling consumables.
    - We see potential for lower than forecast costs, through productivity gains, increased credits, less mining dilution and higher payable terms.
  - The LOM plan is expected to be optimised prior to restart which is expected to enhance project economics.
- On the current schedule first bulk (nickel-copper-cobalt) concentrate production will commence in CY21, we currently assume 2HCY21.

### Key Assumptions

- Our sum of parts valuation for PAN is based largely on information provided in the Updated Savannah Ore Reserve and Mine Plan (July'20).
- We assume current cash + gross sales proceeds from the 80% divestment of the Panton Project provides working capital to complete the proposed ancillary works prior to the restart.
- PAN is currently progressing discussions with offtake parties which could secure a pre-payment facility of up to US\$30m. In addition, indicative terms sheets have been received for a working capital facility (debt) with no mandatory hedging obligations.
- Our model assumes the project can be restarted through a loan facility, with a decision to mine made mid-CY21 for first concentrate production in 2HCY21 (1HFY22), ramping-up throughout FY23.
- We continue to model a nominal \$40M for exploration, which includes the surrounding intrusive targets which remains largely untested.

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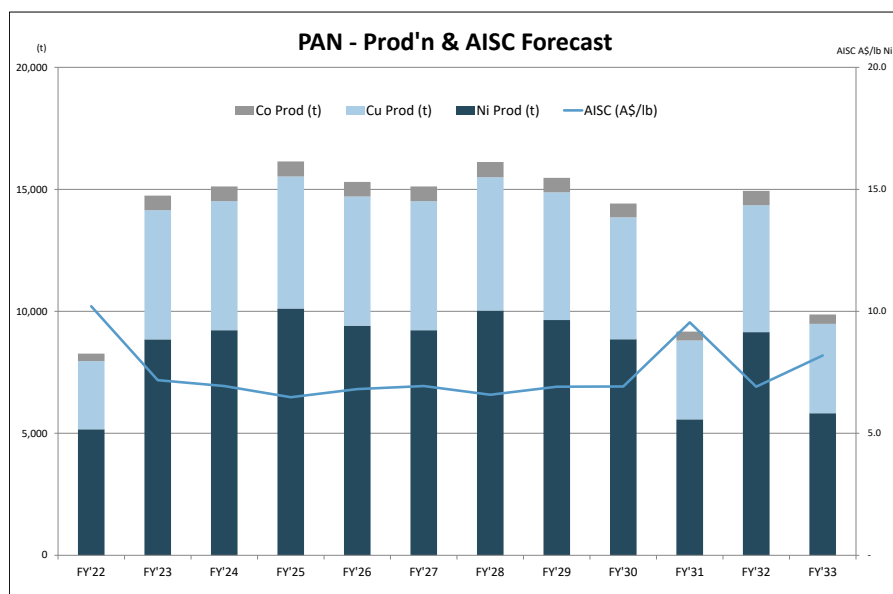
Fig 2: PAN NAV

ASSET VALUATION	A\$m	A\$/sh
Savannah Nickel	248	0.12
Hedging	-	-
Corporate	(38)	(0.02)
Exploration	40	0.02
Debt	-	-
Unpaid Capital	5	0.00
Cash	31	0.01
<b>Total @ 10% nom</b>	<b>286</b>	<b>0.14</b>
Spot NAV	342	0.16

Source: Euroz Hartleys

- Our latest price target is 17cps (up from 13cps) with increased weighting to our base case valuation on a DCF roll forward. Note our PAN valuation at spot commodity prices is 16cps.
- Risks include: completion of restart activities, commodity price movements (in particular nickel, copper), and finalisation of a working capital facility. Orebody risk (Savannah North) is expected to be mitigated by grade control drilling and increased development fronts. Execution and production ramp-up are also risks to consider.

Fig 3: Savannah Forecast Production Profile



Source: Euroz Hartleys

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## Analysis

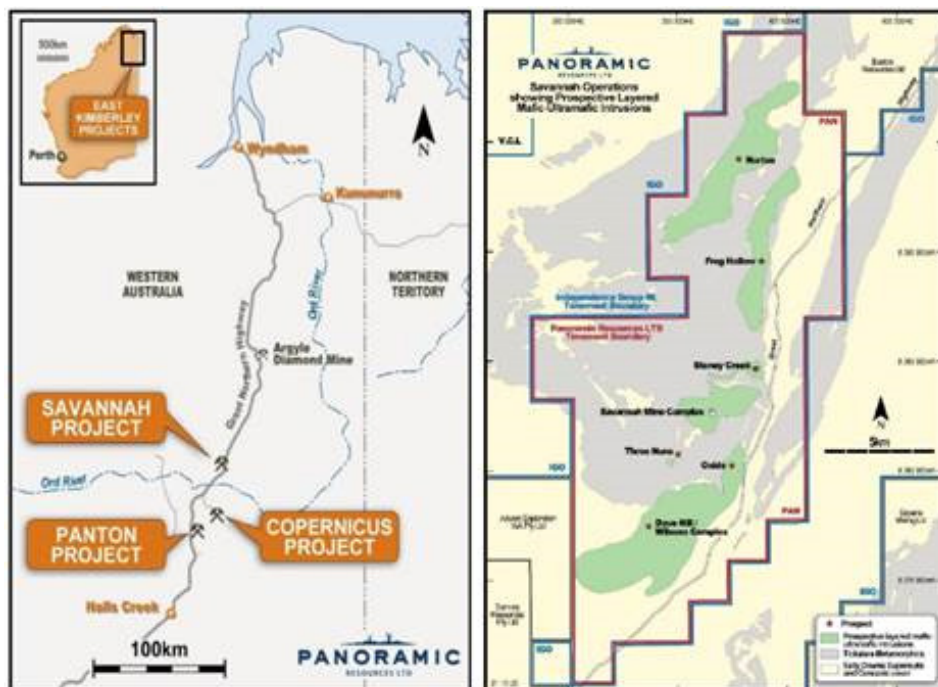
The Savannah Nickel-Copper Operation was suspended mid-April'20, with the last bulk nickel-copper-cobalt concentrate shipped in the JunQ'20. The Savannah plant has now been placed on care and maintenance, having processed its first development and stoped ores from Savannah North.

Savannah North is the future of the Savannah Operations, with twin declines in place into the upper parts of the orebody and only ~3kt of stoping ore mined to date. The Savannah North ore reserve is currently 7Mt grading 1.28% Ni, 0.57% Cu for ~90.1kt of contained nickel, ~40.4kt of contained copper is expected to provide a long mine life, with opportunities to convert some of the larger ~11Mt resource (~4Mt net of reserves). Importantly, Savannah North remains open, providing exploration upside.

PAN's current restart plan for the operations includes the installation of the Savannah North surface ventilation raise, which has now been completed (ahead of schedule), enabling full-scale mining to be undertaken. Ancillary works to be completed prior to restart (from Jan-May'21) include installation of paste lines for Savannah North, power upgrade and the refurbishment of the return air raise fan.

The nickel outlook looks strong, featuring strongly in the EV battery thematic, with cathode components increasing in nickel content, while demand remains under-pinned by the stainless steel sector. Quality nickel sulphides deposits remain in short supply and continue to be our preferred form for nickel production exposure, due to the generally low capital intensity, conventional processing and low operating costs (along with providing quality by-product credits, ie copper and cobalt).

Fig 4: Savannah Project Location



Source: PAN

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### Key Variables

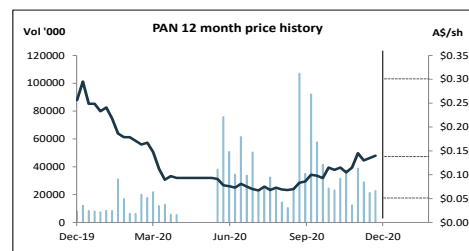
Val/sh		Nickel								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	\$0.14									
	15%	\$0.04	\$0.05	\$0.07	\$0.08	\$0.09	\$0.10	\$0.12	\$0.13	\$0.14
	10%	\$0.05	\$0.07	\$0.08	\$0.09	\$0.10	\$0.12	\$0.13	\$0.14	\$0.16
	5%	\$0.07	\$0.08	\$0.09	\$0.11	\$0.12	\$0.13	\$0.15	\$0.16	\$0.17
	0%	\$0.08	\$0.09	\$0.11	\$0.12	\$0.14	\$0.15	\$0.17	\$0.18	\$0.19
	-5%	\$0.10	\$0.11	\$0.13	\$0.14	\$0.16	\$0.17	\$0.19	\$0.20	\$0.22
	-10%	\$0.11	\$0.13	\$0.14	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24
	-15%	\$0.13	\$0.15	\$0.17	\$0.18	\$0.20	\$0.22	\$0.23	\$0.25	\$0.27

Val/sh		Copper								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	\$0.14									
	15%	\$0.08	\$0.08	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.10	\$0.10
	10%	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11
	5%	\$0.11	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13	\$0.13
	0%	\$0.13	\$0.13	\$0.13	\$0.13	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
	-5%	\$0.15	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16
	-10%	\$0.17	\$0.17	\$0.17	\$0.17	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18
	-15%	\$0.19	\$0.19	\$0.19	\$0.20	\$0.20	\$0.20	\$0.20	\$0.21	\$0.21

Val/sh		Cobalt								
		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	\$0.14									
	15%	\$0.08	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.10
	10%	\$0.10	\$0.10	\$0.10	\$0.10	\$0.10	\$0.11	\$0.11	\$0.11	\$0.11
	5%	\$0.11	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.12	\$0.13
	0%	\$0.13	\$0.13	\$0.13	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14	\$0.14
	-5%	\$0.15	\$0.15	\$0.15	\$0.15	\$0.16	\$0.16	\$0.16	\$0.16	\$0.16
	-10%	\$0.17	\$0.17	\$0.17	\$0.17	\$0.18	\$0.18	\$0.18	\$0.18	\$0.18
	-15%	\$0.19	\$0.19	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.20	\$0.21

Euroz Forecast	FY'19	FY'20	FY'21	FY'22	FY'23	FY'24
Nickel	\$5.66	\$6.26	\$7.13	\$8.00	\$8.00	\$8.00
Copper	\$2.81	\$2.83	\$3.00	\$2.90	\$3.00	\$3.00
AUDUSD	\$0.72	\$0.67	\$0.72	\$0.73	\$0.73	\$0.74

### Our Share Price Sensitivity



### Our Market Sensitivity

Valuation - \$0.14/sh

Price Target - \$0.17/sh

#### Bull Scenario \$0.30/sh

An increase in nickel, copper and cobalt price above our long-term forecasts will see free cash-flow increase dramatically. Successful exploration increases mine life and provides opportunities to increase production levels.

#### Base Scenario - \$0.14/sh

Savannah mine restart in 1HFY22 with targeted production levels achieved as per the latest LOM plan. We assume production levels in-line, but slightly below the latest mine plan (July'20).

#### Bear Scenario - \$0.05/sh

Prior to being placed on care and maintenance (April'20) Savannah had production issues, largely around mining of remnant ores and problems in establishing the vent-raise for full-scale mining of the Savannah North orebody. These issues have now been largely resolved but future issues with mining or ramp-up could require further funding and squeeze cash.

### Company Summary

PAN owns 100% of the Savannah nickel-copper mine 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 first commenced operation in 2004 and was recently placed on care and maintenance in April'20, with plans for the operations to be restarted in 2HCY21. The operation once restarted will provide a long-life (+12 years) with average production levels of 8.8ktpa Ni, 4.6ktpa Cu and 0.6ktpa Co in concentrates. Exploration upside remains strong with potential to extend mine-life and lift production levels.

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Market Statistics				Year End 30 June			
<b>Share Price</b>	<b>\$0.130</b>	<b>A\$/sh</b>	<b>Directors</b>				
Issued Capital			N. Cernotta	Chair			
FP Ord	2,050.9	m	V. Rajasooriar	MD			
Opts (var)	40.0	m	R.Hayward	NE Dir			
<b>Total Dil. FPOrd</b>	<b>2,090.9</b>	<b>m</b>	G.Swabey	NE Dir			
			P.Sullivan	NE Dir			
			G.Dyker	CFO			
<b>Market Capitalisation</b>	<b>\$267</b>	<b>m</b>	<b>Shareholders</b>				
Enterprise Value	\$237	m	Western Areas				
Debt	\$-	m	Zeta Res				
Cash	\$31	m	19.9%				
Hedging	na		16.8%				
<b>Asset Valuation</b>							
			<b>A\$m</b>	<b>A\$/sh</b>			
Savannah Nickel			248	0.12			
Hedging			-	-			
Corporate			(38)	(0.02)			
Exploration			40	0.02			
Debt			-	-			
Unpaid Capital			5	0.00			
Cash			31	0.01			
<b>Total @ 10% nom</b>			<b>286</b>	<b>0.14</b>			
Spot NAV			342	0.16			
<b>F/Cast Production (A\$m)</b>							
	<b>2020a</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
Attributable production							
Savannah Nickel (100%)	3.4	0.0	5.2	8.9			
<b>Ni in con</b>	<b>3.4</b>	<b>0.0</b>	<b>5.2</b>	<b>8.9</b>			
Copper in con	2.2	0.0	2.8	5.3			
Cobalt in con	0.2	0.0	0.3	0.6			
<b>Operating cost Ni payable</b>	<b>17.2</b>	<b>na</b>	<b>7.7</b>	<b>5.7</b>			
<b>AISC per payable</b>	<b>27.3</b>	<b>na</b>	<b>10.2</b>	<b>7.2</b>			
FX Rate assumed	0.67	0.72	0.73	0.73			
Ni Price assumed	6.26	7.13	8.00	8.00			
Ni Price achieved	8.61	10.27	10.96	10.96			
<b>Ratio Analysis (A\$m)</b>							
	<b>2020a</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
CF (A\$m)	(77)	(43)	(0)	36			
CF / Sh (Ac/sh)	(7)	(2)	(0)	2			
CF Ratio (x)	na	na	na	7.5			
Earnings (A\$m)	(88)	(8)	5	27			
EPS (Ac/sh)	(9)	(0)	0	1			
EPS Growth (%)	na	na	na	485%			
Earnings Ratio (x)	na	na	59.8	10.2			
E'prise Val. (A\$m)	243	268	270	236			
EV : EBITDA (x)	na	na	13.1	3.5			
EV : EBIT (x)	na	na	49.3	6.2			
Net Debt / ND+Eq (%)	na	1%	2%	na			
Interest Cover (x)	na	na	6	128			
EBIT Margin (%)	na	na	5%	20%			
ROE (%)	-53%	-5%	3%	13%			
ROA (%)	-40%	-3%	2%	16%			
Div. (Ac/sh)	-	-	-	-			
Div. payout ratio	0%	0%	0%	0%			
Div. Yield	0%	0%	0%	0%			
Div. Franking	100	100	100	100			
<b>Profit and Loss (A\$m)</b>							
	<b>2020a</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
Ni Conc. Sales	57	0	90	154			
By Product Revenue	12	0	19	38			
Hedging Revenue	(10)	-	-	-			
Revenue Adjustment	-	-	-	-			
Interest Revenue	0	1	1	1			
Other Revenue	11	-	-	-			
<b>TOTAL REVENUE</b>	<b>70</b>	<b>1</b>	<b>110</b>	<b>193</b>			
Operating Costs	90	0	80	116			
Dep/Amort	18	0	15	30			
O/H + Bus Dev	8	8	8	8			
W/O & Provisions	34	0	0	0			
EBITDA	(29)	(8)	21	68			
EBIT	(81)	(8)	5	38			
Interest Expense	7	1	2	1			
Net Profit Before Tax	(88)	(8)	5	38			
Tax	-	-	-	11			
Minorities	-	-	-	-			
<b>NET PROFIT</b>	<b>(88)</b>	<b>(8)</b>	<b>5</b>	<b>27</b>			
Net Abnormal Gain/(Loss)	-	-	-	-			
<b>NET PROFIT After Abn'l</b>	<b>(88)</b>	<b>(8)</b>	<b>5</b>	<b>27</b>			
<b>Cash Flow (A\$m)</b>							
	<b>2020a</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
Net Profit	(88)	(8)	5	27			
+ Working Capital Adj.	(2)	-	-	-			
+ Dep/Amort	18	0	15	30			
+ Provisions	38	0	0	0			
+ Tax Expense	-	-	-	11			
- Tax Paid	-	-	-	11			
<b>Operating Cashflow</b>	<b>(34)</b>	<b>(8)</b>	<b>20</b>	<b>56</b>			
-Capex + Development	43	35	20	20			
-Exploration	2	1	2	2			
-Assets Purchased	-	-	-	-			
+Asset Sales	9	12	-	-			
<b>Investing Cashflow</b>	<b>(36)</b>	<b>(24)</b>	<b>(22)</b>	<b>(22)</b>			
+Equity Issues	143	-	-	-			
+Loan D'down/Receivable	19	30	-	-			
-Loan Repayment	74	-	10	10			
-Dividends	-	-	-	-			
<b>Financing Cashflow</b>	<b>88</b>	<b>30</b>	<b>(10)</b>	<b>(10)</b>			
<b>Period Sur (Def)</b>	<b>18</b>	<b>(2)</b>	<b>(12)</b>	<b>24</b>			
<b>Cash Balance</b>	<b>31</b>	<b>29</b>	<b>17</b>	<b>41</b>			
<b>Balance Sheet (A\$m)</b>							
	<b>2020a</b>	<b>2021f</b>	<b>2022f</b>	<b>2023f</b>			
<b>Assets</b>							
Cash	31	29	17	41			
Current Receivables	11	11	11	11			
Other Current Assets	1	1	1	1			
Non-Current Assets	160	195	200	191			
<b>Total Assets</b>	<b>204</b>	<b>237</b>	<b>229</b>	<b>244</b>			
<b>Liabilities</b>							
Borrowings	7	30	20	10			
Current Accounts Payable	3	3	3	3			
Other Liabilities	27	25	25	25			
<b>Total Liabilities</b>	<b>38</b>	<b>58</b>	<b>48</b>	<b>38</b>			
<b>Net Assets</b>	<b>166</b>	<b>179</b>	<b>181</b>	<b>206</b>			
<b>Reserves and Resources</b>							
<b>Savannah</b>	<b>Ni%</b>	<b>Cu%</b>	<b>Co%</b>	<b>Ni kt</b>	<b>Cu kt</b>		
Reserve	1.23	0.59	0.08	102	48.5		
Resource	1.56	0.70	0.10	210	94		
Mining Inventory	1.22	0.54	0.08	127	56.0		
<b>EV/lb Reserve Ni</b>				<b>1.1</b>			
<b>EV/lb Resource Ni</b>				<b>0.5</b>			

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