

6 April 2021

Australia

## EQUITIES

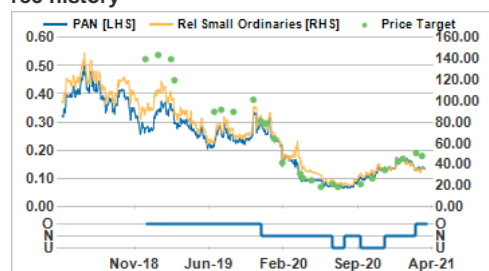
PAN AU Outperform  
Price (at 01:34, 06 Apr 2021 GMT) A\$0.15

Valuation	A\$	0.18
- DCF (WACC 9.4%, beta 1.4, ERP 5.0%, RFR 2.4%, TGR 2.6%)		
12-month target	A\$	0.18
12-month TSR	%	+20.0
Volatility Index		Very High
GICS sector		Materials
Market cap	A\$m	308
30-day avg turnover	A\$m	0.3
Number shares on issue	m	2,051

## Investment fundamentals

Year end 30 Jun		2020A	2021E	2022E	2023E
Revenue	m	69.1	0.0	82.5	184.0
EBITDA	m	-25.0	-16.6	-21.3	31.8
EBIT	m	-44.0	-20.1	-36.1	4.5
Reported profit	m	-87.4	-12.0	-39.1	0.9
Adjusted profit	m	-50.3	-20.6	-39.1	0.9
Gross cashflow	m	-31.9	-17.1	-24.3	28.2
CFPS	¢	-1.8	-0.8	-1.2	1.4
CFPS growth	%	-468.9	53.2	-42.3	nfm
PGCFPS	x	nfm	nfm	nfm	11.1
PGCFPS rel	x	nfm	nfm	nfm	1.12
EPS adj	¢	-3.4	-1.0	-1.9	0.0
EPS adj growth	%	-149.6	70.9	-89.7	nfm
PER adj	x	nfm	nfm	nfm	335.4
PER rel	x	nfm	nfm	nfm	21.45
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-20.4	-10.2	-16.8	1.8
ROE	%	-36.4	-12.5	-24.2	0.6
EV/EBITDA	x	-11.4	-17.1	-13.6	9.1
Net debt/equity	%	-14.4	-4.4	19.6	14.3

## PAN AU rel Small Ordinaries performance, &amp; rec history



Note: Recommendation timeline - if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.

Source: FactSet, Macquarie Research, April 2021

(all figures in AUD unless noted)

## Analysts

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## Panoramic Resources (PAN AU) Savannah gets the green light

## Key points

- PAN has formally approved the re-start at Savannah with mining to commence in August and first concentrate expected in December.
- A five-year offtake and US\$45m funding agreement has been secured with Trafigura Group to enable the re-start to commence.
- The re-start approval is a key positive for PAN with the company now on track to recommence shipments before the end of 2021.

## Event

- PAN has formally approved the production re-start at Savannah after securing an offtake and funding agreement with Trafigura Group.

## Impact

- Approves production re-start at Savannah:** PAN has formally approved the re-start of production at Savannah. Mining is expected to re-start in August with the plant re-start in November to allow for a three-month ore stockpile build. This should enable the first concentrate production in December.
- Offtake and financing agreement:** Key to the re-start was securing additional funding, as PAN noted that the maximum cash drawdown of A\$41m exceeded its net cash position of \$27m. Trafigura has agreed to a five year offtake for all nickel and copper concentrate from the expiry of the Jinchuan offtake in February 2023 to February 2028. As part of the agreement Trafigura will supply a US\$45m financing facility with no hedging required.

## Earnings and target price revision

- Incorporating PAN's updated development schedule for the Savannah project has translated to mixed changes to our earnings outlook due to the re-start occurring around three months later than we had expected and variances in the grade profile. Our FY21 earnings loss widens by 88%, while the FY22 loss increases 3%. We cut FY23 earnings by 81% while FY24 earnings are largely unchanged. We note that the cumulative earnings reduction over the FY21-FY24 period is only \$15m, and we leave our A\$0.18 price target unchanged.

## Price catalyst

- 12-month price target: A\$0.18 based on a 1.0x NPV methodology.
- Catalyst: Updates on the progress of the re-start plan present key near-term catalysts for PAN.

## Action and recommendation

- Maintain Outperform:** The formal approval of the re-start of the Savannah operations was a key positive for PAN as it provides greater certainty for the near-term earnings outlook for the company. The timing of the re-start was slightly later than we had expected, however the overall life of mine production and cost assumptions remain broadly in line with our estimates. Securing a funding facility without the need for hedging enables PAN to retain strong exposure to nickel and copper prices. Importantly the funding facility should enable PAN to remain committed to exploration while undertaking the production re-start and ramp up.

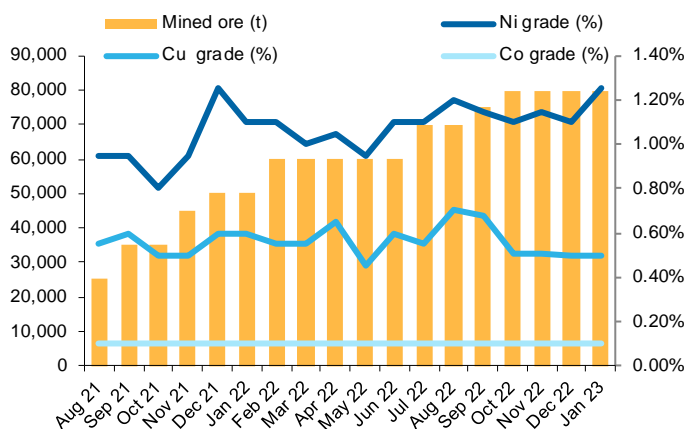
### Savannah production re-start approved

- PAN's Board has formally approved the re-start of production at Savannah. Mining is expected to re-start in August with the plant re-start in November to allow for a three-month ore stockpile build. This should enable the first concentrate production to occur in December 2021 with the maiden concentrate shipment also likely before the end of the year.
- Barmincio, a subsidiary of Perenti Global (PRN AU, Not Rated) has been awarded a four-year underground mining contract and is scheduled to mobilise to site in July. The contract will be serviced by new mining equipment. The process plant will be operated by a contractor, with Primero, a subsidiary of NRW Holdings (NRW AU, Not Rated), awarded the contract under an initial three-year term.

### Life of mine metrics in line with our estimates

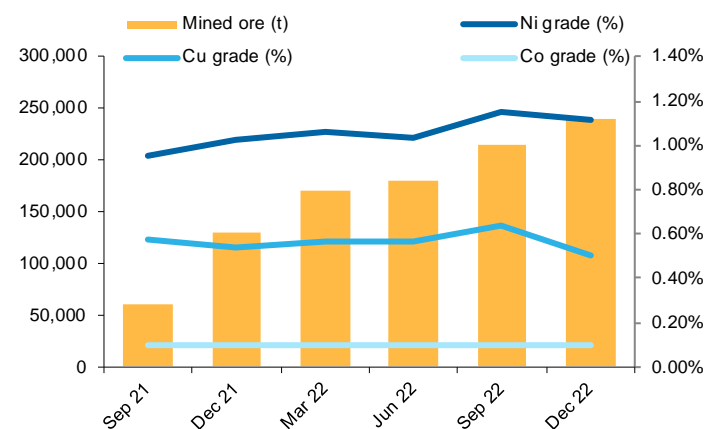
- PAN provided detailed guidance for the re-start of production at Savannah. Mining is expected to commence in August, which was broadly in line with our estimates. The grade profile outlined in the release contained some variances compared to our estimates, however the life of mine assumptions remains broadly in line.

**Fig 1 Monthly mine production and grade profile**



Source: PAN, Macquarie Research, April 2021

**Fig 2 Quarterly mine production and grade profile**



Source: PAN, Macquarie Research, April 2021

- However, PAN indicated it will build a three-month ore stockpile, with processing not expected to commence until November 2021. This is around three months later than we had assumed. We have adjusted our mining assumptions to match the detailed grade profile and pushed back our start date for first concentrate production and shipments.
- The later start results in a 22% cut to our FY22 production assumptions for contained nickel, copper, and cobalt in concentrate. However, with the life of mine plan broadly in line with our estimates we have made only modest adjustments to our FY23 and beyond production forecasts, with changes related to the grade profile.

**Fig 3 We have adjusted our production forecasts to match guidance**

Y/E June	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	FY27e	FY28e	FY29e	FY30e
Nickel in concentrate (kt) - old	0.0	4.9	8.6	8.5	9.7	9.9	9.2	9.2	9.6	9.1
Nickel in concentrate (kt) - new	0.0	3.8	8.4	8.5	9.4	9.8	9.4	9.2	9.5	9.2
Change	nm	(22%)	(2%)	(0%)	(3%)	(1%)	2%	(0%)	(1%)	1%
Y/E June										
Copper in concentrate (kt) - old	0.0	2.9	4.8	4.8	5.4	5.4	4.8	4.8	5.0	4.7
Copper in concentrate (kt) - new	0.0	2.2	4.8	4.8	5.3	5.4	5.0	4.8	5.0	4.8
Change	nm	(22%)	(1%)	0%	(3%)	0%	3%	0%	(1%)	1%
Y/E June										
Cobalt in concentrate (kt) - old	0.0	0.4	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8
Cobalt in concentrate (kt) - new	0.0	0.3	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8
Change	nm	(22%)	(2%)	0%	(3%)	(2%)	2%	0%	(1%)	2%

Source: PAN, Macquarie Research, April 2021

### Mixed changes to earnings but price target unchanged

- Incorporating PAN's updated development schedule for the Savannah project has translated to mixed changes to our earnings outlook due to the re-start occurring around three months later than we had expected and variances in the grade profile.
- Our FY21 earnings loss widens by 88%, while the FY22 loss increases 3%. We cut FY23 earnings by 81% while FY24 earnings are largely unchanged. We note that the cumulative earnings reduction over the FY21-FY24 period is only \$15m, and we leave our A\$0.18 price target unchanged as our longer-term production and cost assumptions are broadly in line with the life of mine plan.

**Fig 4 Mixed changes to earnings forecasts**

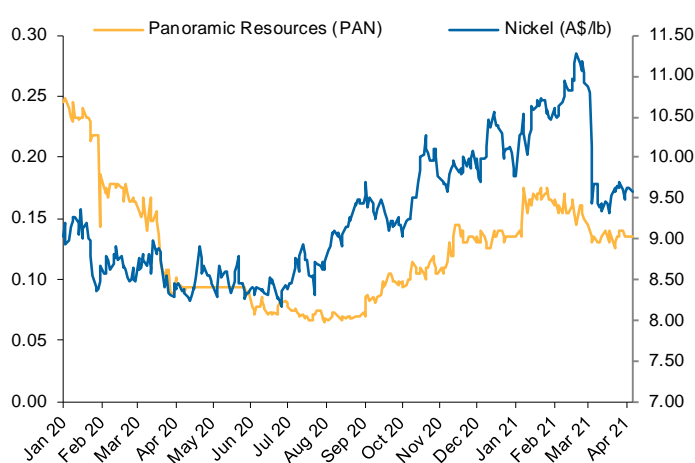
Y/E June	FY21e	FY22e	FY23e	FY24e	FY25e	FY26e	NPV
Net profit (A\$m) - old	(11.0)	(37.9)	4.8	13.7	52.1	73.0	0.180
Net profit (A\$m) - new	(20.6)	(39.1)	0.9	13.7	45.3	69.1	0.180
Change	88%	3%	(81%)	0%	(13%)	(5%)	0%

Source: PAN, Macquarie Research, April 2021

### Share price factoring in a spot nickel price of US\$7.50/lb

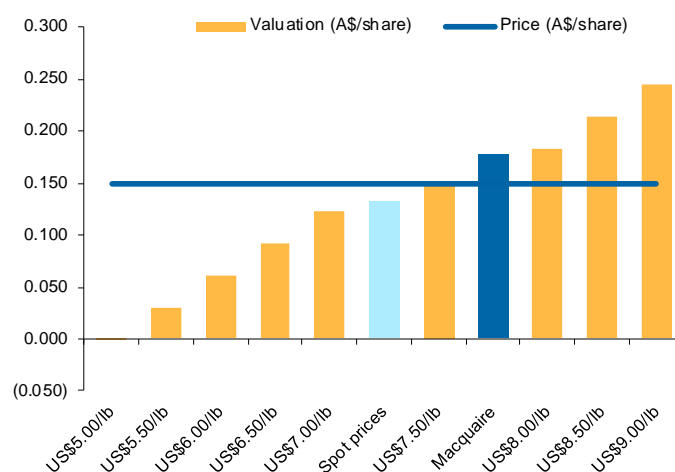
- PAN's share price underperformed the spot nickel price in 2020, which we attribute to the uncertainty over the timing of the production re-start at Savannah. However, in recent weeks the stock has held up well compared to the significant decline in LME nickel prices. We estimate PAN's share price is factoring in a nickel price of US\$7.50/lb assuming current spot prices for copper, cobalt, and the A\$/US\$.

**Fig 5 PAN's share price has lagged the nickel price**



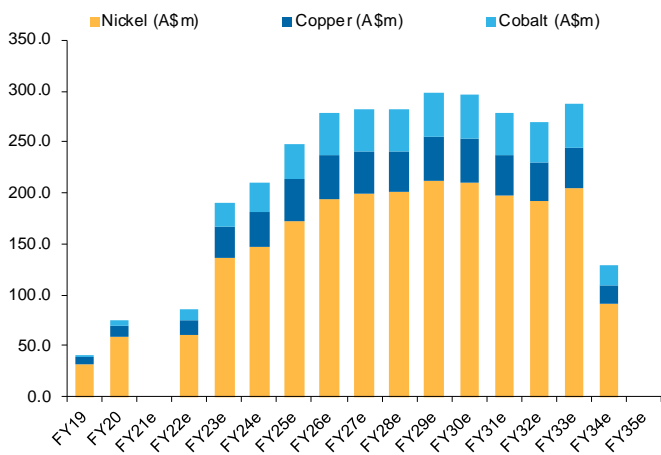
Source: Bloomberg, Macquarie Research, April 2021

**Fig 6 PAN's share price is factoring in US\$7.50/lb nickel**



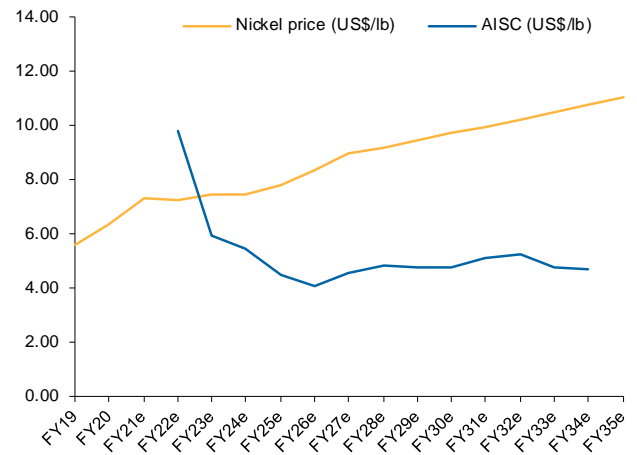
Source: PAN, Bloomberg, Macquarie Research, April 2021

**Fig 7 Savannah production by commodity**



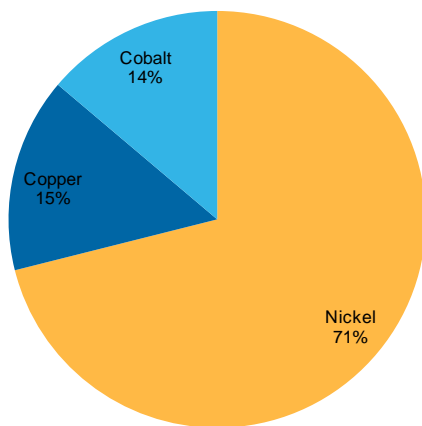
Source: PAN, Macquarie Research, April 2021

**Fig 8 Savannah AISC vs nickel price**



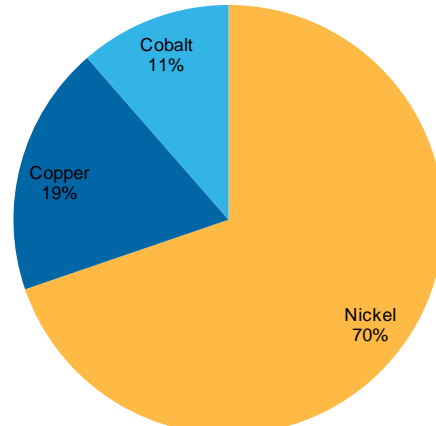
Source: PAN, Macquarie Research, April 2021

**Fig 9 Revenue mix – Macquarie forecasts**



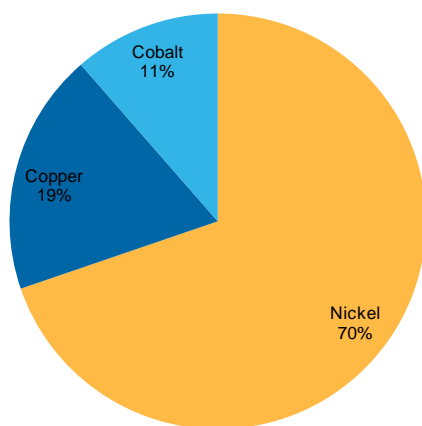
Source: PAN, Macquarie Research, April 2021

**Fig 10 Revenue mix – Spot prices**



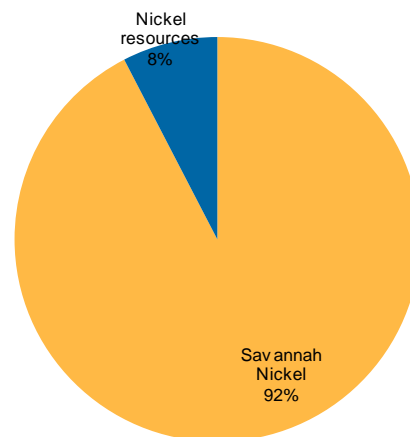
Source: PAN, Macquarie Research, April 2021

**Fig 11 PAN cash build vs market cap**



Source: PAN, Macquarie Research, April 2021

**Fig 12 PAN NPV breakdown**



Source: PAN, Macquarie Research, April 2021

Fig 13 PAN summary financials

Panoramic Resources											
ASX: PAN	Price: (A\$ps)	A\$0.15						Year end: Jun	Rating: Outperform	Up/dn	TSR
	Mkt cap: (A\$m)	308						Diluted shares (m)	Target: A\$0.18	20%	20%
ASSUMPTIONS											
Exchange Rate	A\$/US\$	0.72	0.67	0.75	0.76	0.77	0.72	0.71			
Nickel Price	US\$/lb	5.61	6.34	7.34	7.26	7.43	7.48	7.82			
Nickel Price	A\$/lb	7.84	9.46	9.76	9.52	9.70	10.44	11.10			
RATIO ANALYSIS											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Diluted share capital	m	534.6	2,079.4	2,079.4	2,079.4	2,079.4	2,079.4	2,079.4			
EPS (diluted and pre sig. items)	A¢	(1.8)	(3.9)	(1.0)	(1.9)	0.0	0.7	2.2			
P/E	x	(8.2x)	(3.9x)	(15.1x)	(8.0x)	335.4x	22.7x	6.9x			
CFPS	A¢	0.6	(1.5)	(0.9)	(1.5)	1.2	1.9	3.3			
P/CF	x	26.5x	(9.8x)	(17.2x)	(9.7x)	12.2x	7.8x	4.5x			
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%			
Franking Level	%	0%	0%	0%	0%	0%	0%	0%			
Book value per share	x	0.22	0.08	0.08	0.08	0.08	0.09	0.12			
P/Book value	x	0.7x	1.9x	1.9x	2.0x	1.8x	1.6x	1.3x			
R.O.E. (pre sig items)	%	(8%)	(30%)	(13%)	(25%)	1%	7%	18%			
R.O.A. (pre sig items)	%	(4%)	(21%)	(11%)	(15%)	2%	6%	14%			
Interest Cover	x	(8x)	(6x)	(41x)	nm	1x	5x	16x			
EBITDA per share	A\$ps	(0.00)	(0.01)	(0.01)	(0.01)	0.01	0.02	0.04			
EV/EBITDA	x	(39.9x)	(11.3x)	(17.4x)	(15.3x)	11.0x	7.2x	3.5x			
Free cash flow Yield	%	(68%)	(21%)	(5%)	(14%)	2%	6%	16%			
EARNINGS											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Sales Revenue	A\$m	25	69	0	83	184	204	242			
Other Revenue	A\$m	3	5	0	0	0	0	0			
Total Revenue	A\$m	28	74	0	83	184	204	242			
Operating Costs	A\$m	(25)	(92)	(13)	(96)	(144)	(150)	(156)			
Operational EBITDA	A\$m	3	(17)	(12)	(13)	40	54	86			
Exploration Expense/Write-offs	A\$m	(2)	(0)	(1)	(1)	(1)	(1)	(1)			
Corporate & Other Costs	A\$m	(4)	(8)	(4)	(8)	(8)	(9)	(9)			
EBITDA	A\$m	(2)	(26)	(18)	(22)	31	44	76			
D&A	A\$m	(7)	(18)	(3)	(14)	(26)	(27)	(28)			
EBIT	A\$m	(10)	(43)	(20)	(36)	5	17	48			
Net Interest	A\$m	(1)	(7)	(0)	(3)	(4)	(3)	(3)			
Profit Before Tax	A\$m	(11)	(50)	(21)	(39)	1	14	45			
Tax Expense	A\$m	0	0	0	0	0	0	0			
Minorities	A\$m	1	1	0	0	0	0	0			
Adjusted NPAT	A\$m	(10)	(50)	(21)	(39)	1	14	45			
Significant Items (post tax)	A\$m	20	(37)	9	0	0	0	0			
Reported NPAT	A\$m	10	(87)	(12)	(39)	1	14	45			
CASHFLOW											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Net Profit	A\$m	10	(87)	(12)	(39)	1	14	45			
Interest/Tax/D&A	A\$m	3	17	2	13	26	27	27			
Working Capital/other	A\$m	(10)	38	(8)	(6)	(1)	(1)	(3)			
Net Operating Cashflow	A\$m	3	(32)	(18)	(32)	25	40	69			
Capex	A\$m	(73)	(43)	(19)	(12)	(19)	(20)	(18)			
Investments	A\$m	15	9	20	2	0	0	0			
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0			
Free cash flow	A\$m	(55)	(66)	(17)	(43)	6	20	51			
Dividends Paid	A\$m	0	0	0	0	0	0	0			
Debt	A\$m	37	(75)	(0)	39	(5)	(4)	(5)			
Equity Issuance	A\$m	21	143	0	5	0	0	0			
Other	A\$m	0	0	0	0	0	0	0			
Net Financing Cashflow	A\$m	58	69	(0)	44	(5)	(4)	(5)			
Net change in cash	A\$m	3	3	(17)	1	2	16	46			
BALANCE SHEET											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Cash	A\$m	28	31	14	15	17	33	79			
PP&E & Mine Development	A\$m	144	138	151	149	142	134	125			
Exploration	A\$m	28	13	7	8	9	9	10			
Total Assets	A\$m	227	204	190	239	258	279	335			
Debt	A\$m	47	7	7	46	42	38	32			
Total Liabilities	A\$m	111	38	25	81	85	86	88			
Total Net Assets / Equity	A\$m	116	166	164	158	173	193	247			
Net Debt / (Cash)	A\$m	18	(24)	(7)	31	25	5	47			
Gearing (net debt/(nd + equity))	%	14%	(17%)	(5%)	16%	12%	2%	(23%)			
Gearing (net debt/equity)	%	16%	(14%)	(4%)	20%	14%	2%	(19%)			
ATTRIBUTABLE MINE OUTPUT											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Nickel in concentrate	(kt)	2.4	3.4	0.0	3.8	8.4	8.5	9.4			
Copper in concentrate	(kt)	1.4	2.2	0.0	2.2	4.8	4.8	5.3			
Cobalt in concentrate	(kt)	0.1	0.2	0.0	0.3	0.7	0.7	0.7			
Production forecasts											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
C1 cash costs	(A\$/lb)	nm	14.54	nm	11.01	6.10	5.84	4.73			
AISC	(A\$/lb)	nm	17.67	nm	12.88	7.78	7.59	6.32			
AISC	(US\$/lb)	nm	11.85	nm	9.82	5.96	5.44	4.46			
Cost forecasts											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
C1 cash costs	(A\$/lb)	nm	14.54	nm	11.01	6.10	5.84	4.73			
AISC	(A\$/lb)	nm	17.67	nm	12.88	7.78	7.59	6.32			
AISC	(US\$/lb)	nm	11.85	nm	9.82	5.96	5.44	4.46			
OPERATIONAL OUTLOOK											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Savannah (kt)		2.4	3.4	0.0	3.8	8.4	8.5	9.4			
Lanfranchi (kt)		1.4	2.2	0.0	2.2	4.8	4.8	5.3			
Cash costs (A\$/lb)		nm	14.54	nm	11.01	6.10	5.84	4.73			
AISC (A\$/lb)		nm	17.67	nm	12.88	7.78	7.59	6.32			
AISC (US\$/lb)		nm	11.85	nm	9.82	5.96	5.44	4.46			
SAVANNAH REVENUE MIX											
		FY19	FY20	FY21e	FY22e	FY23e	FY24e	FY25e			
Nickel (A\$m)		25	69	0	83	184	204	242			
Copper (A\$m)		3	5	0	0	0	0	0			
Cobalt (A\$m)		0	0	0	0	0	0	0			
RESERVES AND RESOURCES (ATTRIBUTABLE)											
<b>Savannah Reserves</b>											
<b>Commodity (kt)</b>								Mt	% Ni	Ni (kt)	
Nickel								8.3	1.23%	101.8	
Copper									0.59%	48.5	
Cobalt									0.09%	7.6	
<b>Savannah Resources</b>											
<b>Commodity (kt)</b>								Mt	% Ni	Ni (kt)	
Nickel								13.5	1.56%	209.8	
Copper									0.70%	94.2	
Cobalt									0.10%	13.7	
EQUITY DCF VALUATION											
		Spot Prices	Macquarie Forecasts								
Projects	A\$m	A\$ps	A\$m	A\$ps							
Savannah Nickel	282	0.14	374	0.18							
Nickel resources	25	0.01	27	0.01							
Investments	1	0.00	1	0.00							
New Equity	0	0.00	0	0.00							
Forwards	0	0.00	0	0.00							
Corporate	(42)	(0.02)	(42)	(0.02)							
Net cash (debt)	7	0.00	7	0.00							
Net Equity Value (@ 12.0% (nom) WACC)	274	0.13	367	0.18							
Price Target (1.0x NPV)					0.18						

Source: PAN, Macquarie Research, April 2021

## Important disclosures:

## Recommendation definitions

## Macquarie – Asia and USA

Outperform – expected return >10%  
Neutral – expected return from -10% to +10%  
Underperform – expected return <-10%

## Macquarie – Australia/New Zealand

Outperform – expected return >10%  
Neutral – expected return from 0% to 10%  
Underperform – expected return <0%

Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk

## Volatility index definition\*

This is calculated from the volatility of historical price movements.

**Very high–highest risk** – Stock should be expected to move up or down 60–100% in a year – investors should be aware this stock is highly speculative.

**High** – stock should be expected to move up or down at least 40–60% in a year – investors should be aware this stock could be speculative.

**Medium** – stock should be expected to move up or down at least 30–40% in a year.

**Low–medium** – stock should be expected to move up or down at least 25–30% in a year.

**Low** – stock should be expected to move up or down at least 15–25% in a year.

\* Applicable to select stocks in Asia/Australia/NZ

**Recommendations** – 12 months

**Note:** Quant recommendations may differ from Fundamental Analyst recommendations

## Financial definitions

All "Adjusted" data items have had the following adjustments made:

Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives & hedging, IFRS impairments & IFRS interest expense  
Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends & minority interests

**EPS** = adjusted net profit / epowa\*

**ROA** = adjusted ebit / average total assets

**ROA Banks/Insurance** = adjusted net profit / average total assets

**ROE** = adjusted net profit / average shareholders funds

**Gross cashflow** = adjusted net profit + depreciation

\*equivalent fully paid ordinary weighted average number of shares

All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).

## Recommendation proportions – For quarter ending 31 Mar 2021

	AU/NZ	Asia	USA	
Outperform	51.86%	68.57%	66.67%	(for global coverage by Macquarie, 5.54% of stocks followed are investment banking clients)
Neutral	36.27%	20.79%	33.33%	(for global coverage by Macquarie, 4.81% of stocks followed are investment banking clients)
Underperform	11.86%	10.63%	0.00%	(for global coverage by Macquarie, 3.17% of stocks followed are investment banking clients)

## PAN AU vs Small Ordinaries, &amp; rec history



(all figures in AUD currency unless noted)

Note: Recommendation timeline – if not a continuous line, then there was no Macquarie coverage at the time or there was an embargo period.  
Source: FactSet, Macquarie Research, April 2021

## 12-month target price methodology

PAN AU: A\$0.18 based on a 1.0x NPV methodology

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Date	Stock Code (BIB code)	Recommendation	Target Price
26-Mar-2021	PAN AU	Outperform	A\$.18
08-Mar-2021	PAN AU	Outperform	A\$.19
28-Jan-2021	PAN AU	Neutral	A\$.17
13-Jan-2021	PAN AU	Neutral	A\$.16
04-Dec-2020	PAN AU	Neutral	A\$.13
27-Oct-2020	PAN AU	Underperform	A\$.10
22-Sep-2020	PAN AU	Underperform	A\$.08
03-Aug-2020	PAN AU	Neutral	A\$.07
16-Jul-2020	PAN AU	Underperform	A\$.07
29-Jun-2020	PAN AU	Underperform	A\$.08
25-May-2020	PAN AU	Neutral	A\$.07
27-Apr-2020	PAN AU	Neutral	A\$.09
02-Apr-2020	PAN AU	Neutral	A\$.10
24-Mar-2020	PAN AU	Neutral	A\$.12
30-Jan-2020	PAN AU	Neutral	A\$.16
06-Jan-2020	PAN AU	Neutral	A\$.24
13-Dec-2019	PAN AU	Neutral	A\$.30
05-Dec-2019	PAN AU	Neutral	A\$.30
26-Nov-2019	PAN AU	Neutral	A\$.30
04-Nov-2019	PAN AU	Outperform	A\$.38
05-Sep-2019	PAN AU	Outperform	A\$.34
30-Jul-2019	PAN AU	Outperform	A\$.34
09-Jul-2019	PAN AU	Outperform	A\$.34
11-Mar-2019	PAN AU	Outperform	A\$.45
01-Mar-2019	PAN AU	Outperform	A\$.52
21-Jan-2019	PAN AU	Outperform	A\$.54
14-Dec-2018	PAN AU	Outperform	A\$.52

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