

July 28, 2021

**ADD** (previously HOLD)

Stock code:	PAN AU
Price:	A\$0.165
12-month target price:	A\$0.19
Previous target price:	A\$0.18
Up/downside to target price:	15.2%
Dividend yield:	0.00%
12-month TSR*:	15.2%
Market cap:	A\$338.4m
Average daily turnover:	A\$0.60m
Index inclusion:	ALL ORDINARIES

\* Total stock return – Up/downside to target price + 12-month forward dividend yield.

**Price performance**

(%)	1M	3M	12M	3Y
Absolute	17.9	6.5	123	-62.9
Rel ASX/S&P200	16.2	0.8	100	-80.9



Source: Bloomberg

**Financial summary**

	Jun-20A	Jun-21F	Jun-22F	Jun-23F
Revenue (A\$m)	69.1	0.1	72.9	186.9
EBITDA Norm (A\$m)	-35.29	-0.56	-6.20	40.22
Net Profit (A\$m)	-115.0	-2.2	-14.9	31.7
EPS Norm (A\$)	-0.067	-0.001	-0.007	0.015
EPS Growth Norm (%)	306%	-98%	570%	
P/E Norm (x)	NA	NA	NA	10.66
DPS (A\$)	0.000	0.000	0.000	0.000
Dividend Yield (%)	0%	0%	0%	0%
EV/EBITDA (x)	NA	NA	NA	7.59
Gearing (Net Debt/EBITDA)	0.88	75.62	2.78	-0.83

Source: Company data, Morgans estimates

**Related research**
[PAN \(HOLD - TP A\\$0.18\) - 29 Apr 2021](#)
[PAN \(ADD - TP A\\$0.16\) - 04 Mar 2021](#)
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– N/A

# Panoramic Resources

## Savannah ahead of schedule as nickel rallies

- Underground mining activities have commenced at Savannah ahead of schedule.
- Company reaffirms ore processing scheduled to commence in November with first concentrate shipment forecast for December.
- Debt facility from Trafigura (associated with new metal offtake commencing in CY23) has had all conditions satisfied and is available for draw down.
- PAN had cash of A\$24.5m on 30 June, with no debt drawn.
- We move to an Add recommendation and increase our base case target price to 19cps as the project continues to de-risk.
- An upside scenario, applying spot pricing to CY22 and CY23, would result in a target price of 21cps.

**Event: Q4 activities report**

- Mining activities have resumed at Savannah ahead of schedule, with Barmincio mobilised to site along with a new mining fleet.
- Ore processing is not scheduled until November, with the target being for mining to develop at ~100kt stockpile to minimise the risk of processing interruption.
- Group cash at 30 June of A\$24.5m was boosted by the receipt of C\$3.75m from the sale of Canadian assets, and A\$3.0m from the sale of the remaining stake in Panton in WA.

**Analysis:**

- Early resumption of mining, previously announced by PAN, is a positive outcome and brings the potential to restart processing earlier, though we don't expect management will be keen to risk a "stop/start" commissioning of processing.
- Comments that only 50% of ore is being sourced from Savannah North surprised us, but we understand that mining of remaining ore at Savannah is spread across multiple fronts, reducing the risk of production bottlenecks, and increasingly moving to Savannah North with time.
- Management has flagged the potential for Savannah to exceed a number of the cost and production estimates used in the feasibility study, but we maintain them as our base case until performance is demonstrated.

**Forecast and valuation update:**

- We have made minor adjustments to our copper price deck and AUD assumptions, but maintain our production estimates.
- The impact on near-term financial forecasts is presented on page 4.

**Investment view:**

- PAN management has done a good job progressing and de-risking the restart of Savannah to date, and the early resumption of mining activities is another box ticked, in our view.
- The discount to our base case valuation has been closing, particularly with recent nickel price strength, but we believe the company has the potential to outperform over time at Savannah.
- We move PAN to an ADD rating at a target price of 19cps.

**Price catalysts:**

- Continuing progress towards a resumption of full rate mining and processing over the coming months is the key catalyst for PAN, in our view.

**Risks:**

- Recruitment of staff for mining and processing ramp up, partially mitigated by contract service providers in both areas.
- Nickel price and AUD strength are key macro considerations for PAN.

## Panoramic Resources

as at July 28, 2021

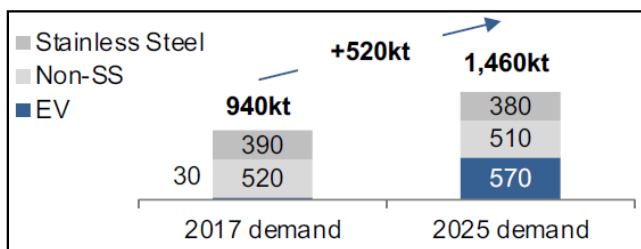
<b>Rating</b>	<b>ADD</b>	Price (A\$):	0.165
Market cap (A\$m):	338.4	12-month target price (A\$):	0.19
Shares outstanding (m):	2,051	Up/downside to target price (%):	15.2
Free float (%):	60.0	Dividend yield (%):	0.00

### Company description

Panoramic (PAN) is a small-cap nickel producer focused on the re-start of its idled Savannah mine in the East Kimberley, WA. The July 2020 life of mine plan forecasts a 16-year project life producing an average 8ktpa of nickel in concentrate along with copper and cobalt. Forecast all in costs of US\$5.57/lb of payable nickel (after by-products) sees the company well positioned to restart operations in a rising nickel market, with processing and export facilities already in place and an existing offtake agreement running to 2023.

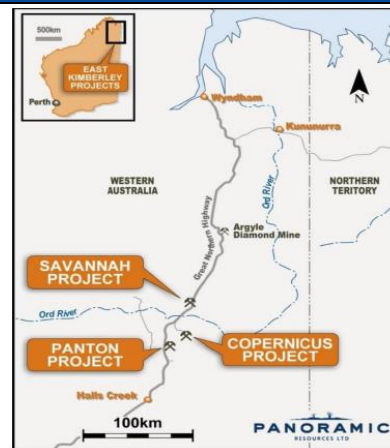
#### Class 1 Nickel Demand Forecast

- 2017 McKinsey & Co report forecasts strong demand for battery grade Ni by 2025.
- At the same time, Ni sulphide production is flat lining at half the level of demand
- Ni laterite requires additional refining to achieve battery grade
- This should support higher Ni prices to meet battery demand than is required for steel market



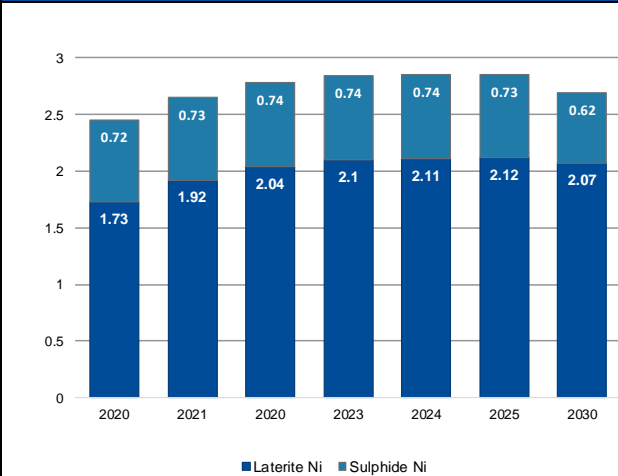
Source: Company, McKinsey & Company

#### Map of PAN Savannah Mine



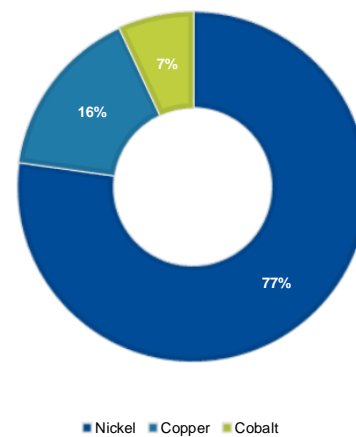
Source: Company

#### Global Ni Production (forecast - Mtpa)



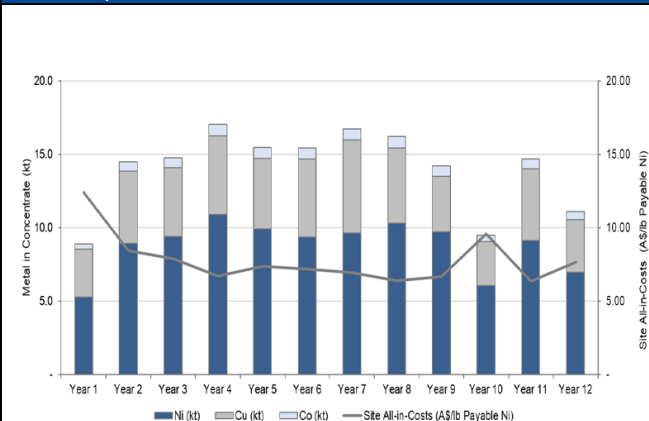
Source: Company, WoodMac

#### Savannah Life of Mine Revenue Breakdown



Source: Morgans

#### PAN Forecast production



Source: Company

#### Key risks & drivers

##### Key Risks

- Commodity prices
- Mining ramp up
- WA labour market challenges

##### Upcoming Catalysts

- Underground mining
- Progress towards concentrate production

##### Industry Divers

- Most Ni demand driven by industrial activity historically (Ni for steel)
- Demand growth in the next decade predicted to be driven by batteries for EVs.
- Batteries require high purity Ni, best sourced from Ni Sulphide deposits like PANs

Source: Morgans

Figure 1: Financial summary

PAN						Mining and Metals					
<b>Income statement (A\$M)</b>						<b>Revenue by Product (A\$M)</b>					
	Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E		Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E
Sales Revenue	69.1	0.1	72.9	186.9	218.2	Nickel	50.2	-	52.4	135.6	163.8
Operating Costs	(90.4)	-	(74.1)	(141.7)	(155.6)	Copper	14.4	-	15.1	37.4	38.2
Other Income/Costs	(14.0)	(0.7)	(5.0)	(5.0)	(5.0)	Cobalt	4.4	-	5.1	13.6	15.6
<b>EBITDA</b>	<b>(35.3)</b>	<b>(0.6)</b>	<b>(6.2)</b>	<b>40.2</b>	<b>57.6</b>	<b>Sales Revenue</b>	<b>69.1</b>	<b>-</b>	<b>72.7</b>	<b>186.7</b>	<b>217.7</b>
Depreciation & Amortisation	(18.3)	(1.6)	(6.6)	(6.6)	(6.6)	<b>Annual Production (kt)</b>					
<b>EBIT</b>	<b>(53.6)</b>	<b>(2.2)</b>	<b>(12.8)</b>	<b>33.7</b>	<b>51.1</b>		Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E
Other Income & Expenses	(34.3)	(0.1)	(2.1)	(1.9)	(1.1)	Nickel	3.25	-	3.07	8.00	9.32
<b>Profit before Income Tax</b>	<b>(87.9)</b>	<b>(2.2)</b>	<b>(14.9)</b>	<b>31.7</b>	<b>50.0</b>	Copper	2.13	-	1.92	4.64	5.13
Income Tax Expense	-	-	-	-	-	Cobalt	0.17	-	0.20	0.47	0.53
<b>NPAT - Reported</b>	<b>(87.9)</b>	<b>(2.2)</b>	<b>(14.9)</b>	<b>31.7</b>	<b>50.0</b>	<b>Total Ni(eq) Production*</b>	<b>4.5</b>	<b>-</b>	<b>4.5</b>	<b>11.8</b>	<b>13.2</b>
<b>Cashflow Statement (A\$M)</b>						<small>*calculated using annual price assumptions below</small>					
	Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E	<b>Price Assumptions (US\$/lb)</b>					
Operating EBITDA	(35.3)	0.8	(4.2)	42.2	59.6		Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E
Net Finance Income	6.2	0.1	(2.1)	(1.9)	(1.1)	Nickel	6.70	7.23	7.48	7.25	7.38
Income Tax Paid	-	-	-	-	-	Copper	2.75	3.19	3.88	3.95	3.58
Other	(4.6)	(9.0)	(17.1)	(8.1)	(4.3)	Cobalt	17.47	17.27	18.05	19.59	19.98
<b>Net operating Cashflow</b>	<b>(33.7)</b>	<b>(8.1)</b>	<b>(23.4)</b>	<b>32.2</b>	<b>54.2</b>	<b>Key Metrics</b>					
Capex (Development, PP&E, other)	(42.1)	(53.3)	-	-	-		Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E
Net Proceeds from Sales/Acquisitions	8.1	15.4	-	-	-	AUD:US	0.69	0.77	0.77	0.74	0.74
Payment for Exploration / Tenements	(1.9)	(1.8)	(2.0)	(2.0)	(2.0)	EPS	-0.06	0.00	-0.01	0.02	0.02
Other Investing Cashflows	0.1	0.1	-	-	-	DPS	0.00	0.00	0.00	0.00	0.00
<b>Net Cash from Investing Activities</b>	<b>(35.8)</b>	<b>(39.6)</b>	<b>(2.0)</b>	<b>(2.0)</b>	<b>(2.0)</b>	Yield	0.0%	0.0%	0.0%	0.0%	0.0%
Net Proceeds from Debt	(55.6)	60.0	-	(14.1)	(14.7)	EBITDA Margin	-51%	0%	-8%	22%	26%
Dividends Paid	-	-	-	-	-	P/E	-2.94	-152.36	-22.74	10.66	6.77
Proceeds from Issues of Shares	143.4	-	-	-	-	EV/EBITDA	-8.71	-524.36	-51.84	7.59	4.64
Other Financing Cashflows	-	(0.5)	-	-	-	Free Cashflow Yield	-7.2%	-3.6%	-6.8%	9.3%	15.7%
<b>Net Cash from Financing Activities</b>	<b>87.9</b>	<b>59.5</b>	<b>-</b>	<b>(14.1)</b>	<b>(14.7)</b>	<b>Valuation</b>					
<b>Net Inc/Dec in Cash and Cash Equivalents</b>	<b>18.4</b>	<b>11.8</b>	<b>(25.4)</b>	<b>16.1</b>	<b>37.6</b>		A\$M		A\$/sh		
<b>Balance Sheet (A\$M)</b>						Discount Rate (%)					
	Jun-20A	Jun-21E	Jun-22E	Jun-23E	Jun-24E	10.0%					
<b>Cash &amp; Cash Equivalents</b>	<b>31.2</b>	<b>42.7</b>	<b>17.2</b>	<b>33.3</b>	<b>70.8</b>	Savannah NPV					
Other Current Assets	11.4	5.7	23.3	34.3	39.3	\$325					
<b>Total Current Assets</b>	<b>43.5</b>	<b>48.4</b>	<b>40.6</b>	<b>67.7</b>	<b>110.2</b>	Corp. Overhead NPV LOM					
Development Assets	86.7	137.1	130.9	124.6	118.4	-\$23					
Property, Plant & Equipment	51.2	59.9	59.5	59.2	58.9	<b>Total Current NPV (A\$M)</b>					
Exploration and Evaluation Expenditure	12.5	6.3	6.3	6.3	6.3	<b>\$303</b>					
Other Non-Current Assets	9.8	7.2	7.2	7.2	7.2	Exploration Upside (A\$M)					
<b>Total Non-Current Assets</b>	<b>160.2</b>	<b>210.5</b>	<b>204.0</b>	<b>197.4</b>	<b>190.8</b>	\$60					
<b>Total Assets</b>	<b>203.6</b>	<b>258.9</b>	<b>244.5</b>	<b>265.1</b>	<b>301.0</b>	Cash & Cash Equivalents (A\$M)					
Trade & Other Payables	3.4	3.2	3.7	6.6	7.3	\$25					
Provisions & Other Current Liabilities	4.2	2.2	2.2	2.2	2.2	Listed Investments					
<b>Total Current Liabilities</b>	<b>7.6</b>	<b>5.4</b>	<b>5.9</b>	<b>8.8</b>	<b>9.5</b>	\$0					
Senior Debt	5.4	65.1	65.1	51.0	36.3	<b>Total Valuation (A\$M)</b>					
Provisions & Other Non-Current Liabilities	24.5	24.4	24.4	24.4	24.4	<b>\$85</b>					
<b>Total Non-Current Liabilities</b>	<b>29.9</b>	<b>89.5</b>	<b>89.5</b>	<b>75.4</b>	<b>60.7</b>	Fully Diluted Shares On Issue (million)					
<b>Total Liabilities</b>	<b>37.5</b>	<b>94.9</b>	<b>95.4</b>	<b>84.2</b>	<b>70.2</b>	2,091					
<b>Total Equity</b>	<b>166.1</b>	<b>164.0</b>	<b>149.1</b>	<b>180.8</b>	<b>230.8</b>	<b>Target Price (A\$/Share)</b>					
						<b>\$0.19</b>					
<b>Savannah Project Annual Production (kt)</b>						<b>Annual Revenue (A\$M)</b>					

Source: Morgans estimates, company data

## Changes to forecasts

We have made minor changes to our copper price and AUD forecasts, driving small changes to revenue and NPAT assumptions. The impact is outlined below.

Figure 2: Changes to financial forecasts

	2020A	2021F			2022F			2023F		
		Old	New	% change	Old	New	%	Old	New	% change
Revenue (A\$m)	69.1	0.1	0.1	0%	72.0	72.9	1%	183.0	186.9	2%
EBITDA (A\$m)	-35.3	-0.6	-0.6	0%	-7.1	-6.2	-12%	36.5	40.2	10%
NPAT (A\$m)	-87.9	(2.2)	(2.2)	0%	(15.7)	(14.9)	6%	28.0	31.7	14%
<b>Key Assumptions</b>										
Nickel (USD/lb)	6.7	7.2	7.2	0%	7.5	7.5	0%	7.3	7.3	0%
Copper (USD/lb)	2.8	3.2	3.2	0%	3.5	3.9	11%	3.3	3.9	19%
Cobalt (USD/lb)	17.5	17.3	17.3	0%	18.1	18.1	0%	19.6	19.6	0%
AUD	0.69	0.77	0.77	0%	0.75	0.77	2%	0.74	0.74	0%

Source: Morgans estimates, company data

Queensland		New South Wales		Victoria		Western Australia	
Brisbane	+61 7 3334 4888	Sydney	+61 2 9043 7900	Melbourne	+61 3 9947 4111	West Perth	+61 8 6160 8700
Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management		Stockbroking, Corporate Advice, Wealth Management	
Brisbane: Edward St	+61 7 3121 5677	Sydney: Grosvenor	+61 2 8215 5000	Brighton	+61 3 9519 3555	Perth	+61 8 6462 1999
Brisbane: Tynan	+61 7 3152 0600	Place		Camberwell	+61 3 9813 2945		
Partners		Sydney: Reynolds	+61 2 9373 4452	Domain	+61 3 9066 3200		
Brisbane: North Quay	+61 7 3245 5466	Securities		Geelong	+61 3 5222 5128		
Bundaberg	+61 7 4153 1050	Sydney: Currency	+61 2 8216 5111	Richmond	+61 3 9916 4000		
Cairns	+61 7 4222 0555	House		South Yarra	+61 3 8762 1400		
Caloundra	+61 7 5491 5422	Armidale	+61 2 6770 3300	Southbank	+61 3 9037 9444		
Gladstone	+61 7 4972 8000	Ballina	+61 2 6686 4144	Traralgon	+61 3 5176 6055		
Gold Coast	+61 7 5581 5777	Balmain	+61 2 8755 3333	Warmambool	+61 3 5559 1500		
Holland Park	+61 7 3151 8300	Bowral	+61 2 4851 5555				
Ipswich/Springfield	+61 7 3202 3995	Chatswood	+61 2 8116 1700	<b>Australian Capital Territory</b>			
Kedron	+61 7 3350 9000	Coffs Harbour	+61 2 6651 5700	Canberra	+61 2 6232 4999		
Mackay	+61 7 4957 3033	Gosford	+61 2 4325 0884				
Milton	+61 7 3114 8600	Hurstville	+61 2 8215 5079	<b>Northern Territory</b>			
Newstead	+61 7 3151 4151	Merimbula	+61 2 6495 2869	Darwin	+61 8 8981 9555		
Noosa	+61 7 5449 9511	Mona Vale	+61 2 9998 4200				
Redcliffe	+61 7 3897 3999	Neutral Bay	+61 2 8969 7500	<b>Tasmania</b>			
Rockhampton	+61 7 4922 5855	Newcastle	+61 2 4926 4044	Hobart	+61 3 6236 9000		
Spring Hill	+61 7 3833 9333	Orange	+61 2 6361 9166				
Sunshine Coast	+61 7 5479 2757	Port Macquarie	+61 2 6583 1735				
Toowoomba	+61 7 4639 1277	Scone	+61 2 6544 3144				
Townsville	+61 7 4725 5787	Wollongong	+61 2 4227 3022				

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