

Panoramic Resources Limited

(PAN \$0.25) Speculative Buy

EUROZ HARTLEYS

Analyst	Date	Price Target
Mike Millikan	28 th January 2022	\$0.35/sh ▲ from \$0.32/sh

First Ni-Cu-Co concentrate shipped, ramping up

Event

DecQ highlights successful commissioning of the Savannah mine, and first Ni-Cu-Co concentrate shipment. Provisional proceeds of ~A\$20m received and ramp-up to targeted levels continues. Labour conditions remain tight, flagging a minimum 4 shipments for 2H.

Impact

- First shipment of (Ni-Cu-Co) concentrate from the Savannah mine departed late DecQ, with production ramping up towards steady-state levels, expected to be achieved in 2H.
- Processing plant successfully commissioned, reporting stable production levels with higher recoveries anticipated in the coming Q's.
- Pre-commercial production only, with total site expenditure of ~A\$31m, and provisional revenue of ~A\$20m (received early Jan'22).
- Access to labour remains somewhat challenging, especially with the WA hard border in place. Surface stockpiles are providing a buffer should mining rates fall behind schedule. Development rates currently being maintained but lower stope production will need to be monitored, especially in regards to mined grades.
- Group cash at Q end was A\$11.2m, with provisional concentrate sales of A\$20.4m for cash and receivables of A\$31.6m, debt US\$30m (~A\$43m). PAN retains an undrawn facility for US\$15m.
- No formal guidance FY22, next shipment due mid-Feb with a minimum of 4 shipments planned for the next 6 months, each shipment size is ~7-10kt of concentrate, implies potential ~2kt-3kt of contained nickel for 2H. We model 3.4kt Ni production FY22. Guidance for FY23 to be provided mid-year.
- Only minor changes to our Savannah DCF from the Q actuals, valuation unchanged 28cps, our PAN NAV at spot prices is 43cps (highlighting leverage to current prices).

Action

Commissioning quarter delivers first revenues, with ramp-up well underway. Current commodity prices (Ni, Cu and Co) remain strong providing upside potential to earnings. **Speculative Buy retained, with Price Target of 35cps (up from 32cps).**

Key Catalysts

- Production ramp-up (2HFY22)
- Exploration drilling, in-mine and regional (A\$3m budget FY22)
- Change in offtake arrangements (CY23)
- Balance sheet management (debt repayment)
- Nickel, copper and cobalt prices

Panoramic Resources Ltd	Year End 30 June	
Share Price	0.25	A\$/sh
Price Target	0.35	A\$/sh
Valuation	0.28	A\$/sh
		(npv 10% nom)

Shares on issue	2097	m, diluted *
Market Capitalisation	520	A\$m
Enterprise Value	445	A\$m
Debt	-43	A\$m
Cash and receipts	32	A\$m
Largest Shareholder	Western Areas	19.9%

Production F/Cast	2021a	2022f	2023f
Ni in conc. (kt)	0.0	3.4	9.0
Copper in conc. (kt)	0.0	2.0	5.1
Op cost (A\$/lb)	na	9.9	6.0

Assumptions	2021a	2022f	2023f
Ni Price assumed US\$/lb	7.38	9.70	9.00
Ni Price achieved A\$/lb	9.89	13.36	12.33
AUDUSD	0.75	0.73	0.73

Key Financials	2021a	2022f	2023f
Revenue (A\$m)	11	95	234
EBITDA (A\$m)	14	12	88
NPAT (A\$m)	0	-2	41
Cashflow (A\$m)	-29	-29	50

CFPS (Ac)	-1	-1	2
P/CFPS (x)	na	na	10.5

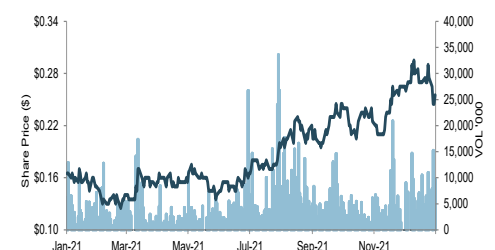
EPS (Ac)	0	0	2
EPS growth (%)	na	na	na
PER (x)	2071.5	na	12.9

EV:EBITDA (x)	na	44.6	5.4
EV:EBIT (x)	1821.1	na	8.1

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



Disclaimer

This analyst declares that he has a beneficial interest in Panoramic Resources Limited.

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Analysis

- Processing plant successfully commissioned Oct'21, reporting stable production levels and tracking to the ramp-up schedule.
- Pre-commercial commissioning, ore milled of 123.7kt @ 0.99% Ni, 0.55% Cu, 0.06% Co @ recoveries 63.6% Ni, 82.2% Cu and 71.4% Co for contained 779t Ni, 559t Cu and 53t Co.
- Grades reconciling in-line of expectations, with grade and recoveries due to lift towards target levels in the coming quarters (+1.2% Ni and +83% Ni recoveries LOM).
- Ongoing grade control drilling adding confidence to the mine plan and confirms good grade continuity in the Upper Zone at Savannah North.
- First stope mined during the quarter delivered a good dilution result of -7% vs the conservative reserve design dilution of -22.5%, provides potential for higher than forecast grades and earnings.
- Some labour constraints (as experienced throughout the sector) has modified and slowed some of the stope sequencing but development rates have been maintained.
- Relaxed borders (hopefully in the MarQ) will allow mining to revert back to normal sequencing, but in the interim ore stockpile will be drawn to balance ramp-up. Ore stockpiles currently 60.4kt (down -40% qoq from -101kt).
- Total site expenditure of A\$31.4m, with generated provisional revenue of -A\$20.4m (received in Jan'22).
- Small hedge in place for 400t of nickel @ US\$19,871/t representing -57% of contained metal in the first shipment, due for settlement Feb'22. No other hedges are currently in place.
- Next concentrate shipment due mid-Feb with a minimum of 4 shipments planned for the next 6 months, each shipment size is -7-10kt of concentrate, implies potential -2kt-3kt of contained nickel for 2H.
- We model 3.4kt Ni, 2.0kt Cu and 0.2kt Co in concentrate production in FY22. Guidance for FY23 to be provided mid-year, we assume the target 9ktpa Ni can be achieved.
- The Jinchuan offtake expires at the end of Jan'23, after which the 5-year Trafigura offtake commences (Feb'23-Feb'28). PAN has loan facilities through Trafigura, with US\$30m currently drawn and US\$15m available.
- Cash at DecQ end was low at A\$11.2m, but provisional concentrate sales of A\$20.4m for increased cash and receivables to A\$31.6m in early Jan'22.

Fig 1: PAN NAV

ASSET VALUATION	A\$m	A\$/sh
Savannah Nickel	508	0.24
Hedging	-	-
Corporate	(34)	(0.02)
Exploration	40	0.02
Debt	43	0.02
Unpaid Capital	5	0.00
Cash and receivables	32	0.02
Total @ 10% nom	593	0.28
Spot NAV	892	0.43

Source: Euroz Hartleys

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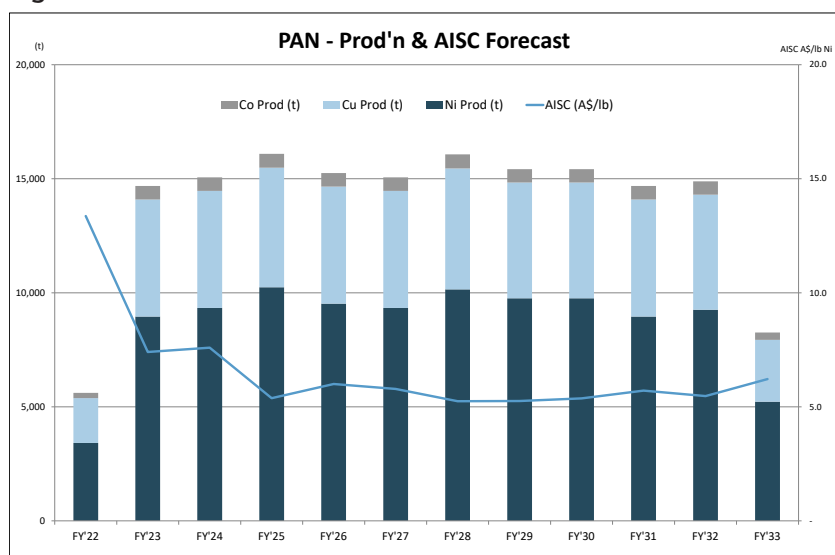
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- We continue to model in-line of the Savannah LOM plan which uses a mining inventory of 10.6Mt @ 1.23% Ni, 0.54% Cu and 0.08% Co for 131kt Ni, 56kt Cu and 8.5Kt Co contained metal.
- Average annual production of 9,072t nickel, 4,683t copper and 659t cobalt in concentrate over the 12 year LOM. Average all-in-site costs (AISC) of A\$6.36/lb (base case pricing) payable Ni (net of copper and cobalt credits). Costs influenced from by-product credits.
- We see potential for lower than forecast costs, through productivity gains, increased credits, less mining dilution and higher payable terms (we believe our payable assumptions are at the lower end). We expect that the mine plan will continue to improve as production gets ramped-up and ore schedules fine-tuned.
- Our latest price target is 35cps (up from 32cps). Note our PAN valuation at spot commodity prices is 43cps. PT weighted from our base case price assumptions and current spot levels.
- Risks include: ramp-up to targeted production levels, commodity price movements (in particular nickel, copper), and repayment of the debt facility. Orebody risk (Savannah North) is expected to be mitigated by grade control drilling and increased development fronts.

Fig 2: Savannah Production Profile



Source: Euroz Hartleys

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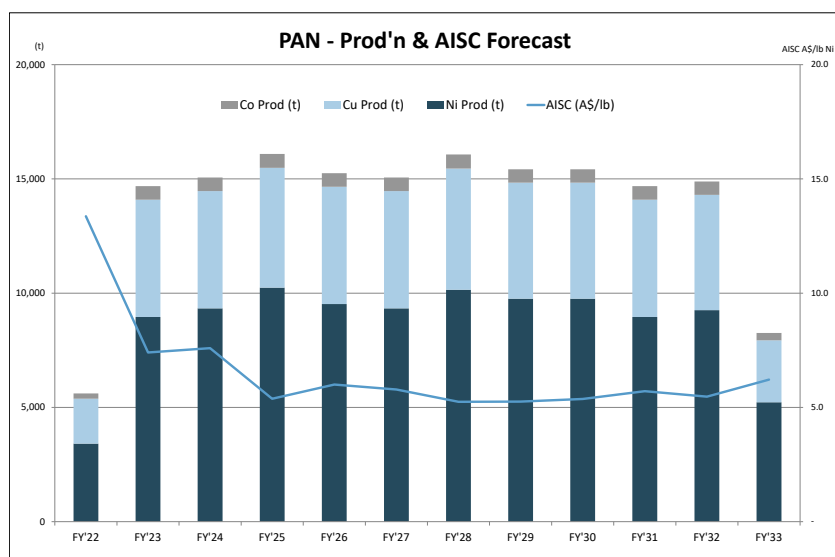
Key Variables

Val/ Sh		Nickel								
\$0.28		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.16	\$0.18	\$0.19	\$0.21	\$0.22	\$0.24	\$0.25	\$0.27	\$0.29
	10%	\$0.18	\$0.19	\$0.21	\$0.23	\$0.24	\$0.26	\$0.27	\$0.29	\$0.31
	5%	\$0.19	\$0.21	\$0.23	\$0.24	\$0.26	\$0.28	\$0.29	\$0.31	\$0.33
	0%	\$0.21	\$0.23	\$0.25	\$0.26	\$0.28	\$0.30	\$0.32	\$0.34	\$0.35
	-5%	\$0.23	\$0.25	\$0.27	\$0.29	\$0.31	\$0.32	\$0.34	\$0.36	\$0.38
	-10%	\$0.25	\$0.27	\$0.29	\$0.31	\$0.33	\$0.35	\$0.37	\$0.39	\$0.41
-15%	\$0.28	\$0.30	\$0.32	\$0.34	\$0.36	\$0.38	\$0.40	\$0.42	\$0.44	

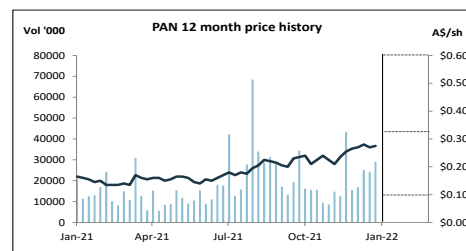
Val/ Sh		Copper								
\$0.28		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.23	\$0.23	\$0.23	\$0.23
	10%	\$0.23	\$0.23	\$0.24	\$0.24	\$0.24	\$0.24	\$0.25	\$0.25	\$0.25
	5%	\$0.25	\$0.25	\$0.26	\$0.26	\$0.26	\$0.26	\$0.27	\$0.27	\$0.27
	0%	\$0.27	\$0.27	\$0.28	\$0.28	\$0.28	\$0.29	\$0.29	\$0.29	\$0.29
	-5%	\$0.29	\$0.30	\$0.30	\$0.30	\$0.31	\$0.31	\$0.31	\$0.31	\$0.32
	-10%	\$0.32	\$0.32	\$0.33	\$0.33	\$0.33	\$0.34	\$0.34	\$0.34	\$0.34
-15%	\$0.35	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.37	\$0.37	\$0.37	

Val/ Sh		Cobalt								
\$0.28		-20%	-15%	-10%	-5%	0%	5%	10%	15%	20%
AUDUSD	15%	\$0.22	\$0.22	\$0.22	\$0.22	\$0.22	\$0.23	\$0.23	\$0.23	\$0.23
	10%	\$0.23	\$0.24	\$0.24	\$0.24	\$0.24	\$0.24	\$0.25	\$0.25	\$0.25
	5%	\$0.25	\$0.26	\$0.26	\$0.26	\$0.26	\$0.26	\$0.27	\$0.27	\$0.27
	0%	\$0.27	\$0.28	\$0.28	\$0.28	\$0.28	\$0.28	\$0.29	\$0.29	\$0.29
	-5%	\$0.30	\$0.30	\$0.30	\$0.30	\$0.31	\$0.31	\$0.31	\$0.31	\$0.32
	-10%	\$0.32	\$0.33	\$0.33	\$0.33	\$0.33	\$0.33	\$0.34	\$0.34	\$0.34
-15%	\$0.35	\$0.35	\$0.36	\$0.36	\$0.36	\$0.36	\$0.37	\$0.37	\$0.37	

EH Forecast	FY'20	FY'21	FY'22	FY'23	FY'24	FY'25
Nickel	\$6.26	\$7.38	\$9.70	\$9.00	\$8.50	\$8.00
Copper	\$2.83	\$3.61	\$4.36	\$4.00	\$3.75	\$3.50
AUDUSD	\$0.67	\$0.75	\$0.73	\$0.73	\$0.74	\$0.74



Our Share Price Sensitivity



Our Market Sensitivity

Valuation - \$0.28/sh

Price Target - \$0.35/sh

Bull Scenario \$0.60/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 - \$0.35/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.

Bear Scenario - \$0.10/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 been 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 placed on care and maintenance in April'20, with plans for the operations to be restarted in Dec'CY21. The operation once restarted will provide a long-life (+12 years) with ave production levels of 9.0ktpa Ni, 4.6ktpa Cu and 0.6ktpa Co in concentrates. Exploration upside remains strong with potential to extend mine-life and lift production levels.

Disclaimer

The projections and information above is based on the set assumptions outlined. Due care and attention has been used in the preparation of this information. However actual results may vary from forecasts and any variation may be materially positive or negative. Forecasts by their very nature, are subject to uncertainty and contingencies, many of which are outside the control of Euroz Hartleys.

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Market Statistics		Year End 30 June				
Share Price	\$0.250 A\$/sh	Directors				
Issued Capital		N. Cernotta		Chair		
FP Ord	2,050.9 m	V. Rajasooriar		MD		
Opts (var)	46.4 m	R.Hayward		NE Dir		
Total Dil. FPOrd	2,097.3 m	G.Swaby		NE Dir		
		P.Sullivan		NE Dir		
		G.Dyker		CFO		
Market Capitalisation	\$520 m	Shareholders				
Enterprise Value	\$445 m	Western Areas		19.9%		
Debt	\$(43) m	Zeta Res		16.6%		
Cash and receivables	\$32 m					
<i>Hedging 400t Ni @ US\$9.01/lb Ni (Feb'21)</i>						
Asset Valuation		A\$m	A\$/sh			
Savannah Nickel		508	0.24			
Hedging		-	-			
Corporate		(34)	(0.02)			
Exploration		40	0.02			
Debt		43	0.02			
Unpaid Capital		5	0.00			
Cash and receivables		32	0.02			
Total @ 10% nom		593	0.28			
Spot NAV		892	0.43			
F/Cast Production (A\$m)		2020A	2021A	2022F	2023F	
Attributable production						
Savannah Nickel (100%)	kt	3.4	0.0	3.4	9.0	
Ni in con	kt	3.4	0.0	3.4	9.0	
Copper in con	kt	2.2	0.0	2.0	5.1	
Cobalt in con	kt	0.2	0.0	0.2	0.6	
Operating cost Ni payable	A\$/lb	17.2	na	9.9	6.0	
AISC per payable	A\$/lb	27.3	na	13.4	7.4	
FX Rate assumed	US\$:A\$1	0.67	0.75	0.73	0.73	
Ni Price assumed	US\$/lb	6.26	7.38	9.70	9.00	
Ni Price achieved	A\$/lb	8.61	10.29	13.27	12.33	
Ratio Analysis (A\$m)		2020A	2021A	2022F	2023F	
CF (A\$m)		(77)	(29)	(29)	50	
CF / Sh (Ac/sh)		(7)	(1)	(1)	2	
CF Ratio (x)		na	na	na	10.5	
Earnings (A\$m)		(88)	0	(2)	41	
EPS (Ac/sh)		(9)	0	(0)	2	
EPS Growth (%)		na	na	na	na	
Earnings Ratio (x)		na	2,071.5	na	12.9	
E'prise Val. (A\$m)		496	496	527	481	
EV : EBITDA (x)		na	na	44.6	5.4	
EV : EBIT (x)		na	1,821.1	na	8.1	
Net Debt / ND+Eq (%)		na	na	5%	na	
Interest Cover (x)		na	14	na	64	
EBIT Margin (%)		na	3%	na	25%	
ROE (%)		-53%	0%	-1%	21%	
ROA (%)		-40%	0%	0%	23%	
Div. (Ac/sh)		-	-	-	-	
Div. payout ratio		0%	0%	0%	0%	
Div. Yield		0%	0%	0%	0%	
Div. Franking		100	100	100	100	
Profit and Loss (A\$m)		2020A	2021A	2022F	2023F	
Ni Conc. Sales		57	0	73	183	
By Product Revenue		12	0	21	50	
Hedging Revenue		(10)	-	-	-	
Revenue Adjustment		-	-	-	-	
Interest Revenue		0	0	1	2	
Other Revenue		11	10	-	-	
TOTAL REVENUE		70	11	95	234	
Operating Costs		90	16	74	136	
Dep/Amort		18	0	13	29	
O/H + Bus Dev		8	7	8	8	
W/O & Provisions		34	(13)	0	0	
EBITDA		(29)	14	12	88	
EBIT		(81)	0	(1)	59	
Interest Expense		7	0	2	3	
Net Profit Before Tax		(88)	0	(2)	58	
Tax		-	-	-	17	
Minorities		-	-	-	-	
NET PROFIT		(88)	0.3	(2)	41	
Net Abnormal Gain/(Loss)		-	-	-	-	
NET PROFIT After Abn'l		(88)	0.3	(2)	41	
Cash Flow (A\$m)		2020A	2021A	2022F	2023F	
Net Profit		(88)	0	(2)	41	
+ Working Capital Adj.		(2)	(4)	(3)	-	
+ Dep/Amort		18	0	13	29	
+ Provisions		38	(14)	0	0	
+ Tax Expense		-	-	-	17	
- Tax Paid		-	-	-	17	
Operating Cashflow		(34)	(17)	7	70	
-Capex + Development		43	12	36	20	
-Exploration		2	1	3	3	
-Assets Purchased		-	-	-	-	
+Asset Sales		9	24	-	-	
Investing Cashflow		(36)	12	(39)	(23)	
+Equity Issues		143	-	-	-	
+Loan D'down/Receivable		19	-	43	-	
-Loan Repayment		74	1	5	10	
-Dividends		-	-	-	-	
Financing Cashflow		88	(1)	38	(10)	
Period Sur (Def)		18	(7)	6	37	
Cash Balance		31	24	30	67	
Balance Sheet (A\$m)		2020A	2021A	2022F	2023F	
Assets						
Cash		31	24	30	67	
Current Receivables		11	2	2	2	
Other Current Assets		1	2	2	2	
Non-Current Assets		160	173	197	188	
Total Assets		204	202	232	259	
Liabilities						
Borrowings		7	-	38	28	
Current Accounts Payable		3	4	4	4	
Other Liabilities		27	30	30	30	
Total Liabilities		38	35	73	63	
Net Assets		166	167	159	197	
Reserves and Resources						
Savannah	Mt	Ni%	Cu%	Co%	Ni kt	Cu kt
Reserve	8.3	1.23	0.59	0.08	101.8	48.5
Resource	13.5	1.56	0.70	0.10	209.8	94.2
Mining Inventory	10.6	1.23	0.54	0.08	130.7	57.4
EV/lb Reserve Ni					2.0	
EV/lb Resource Ni					1.0	

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