

24 February 2022

Australia

EQUITIES

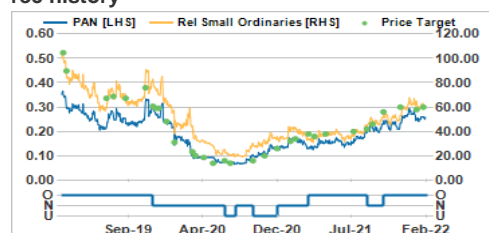
PAN AU Outperform
 Price (at 05:10, 23 Feb 2022 GMT) A\$0.26

Valuation	A\$	0.31
- DCF (WACC 7.8%, beta 1.3, ERP 5.0%, RFR 2.4%, TGR 2.6%)		
12-month target	A\$	0.30
12-month TSR	%	+15.4
Volatility Index		Very High
GICS sector		Materials
Market cap	A\$m	533
30-day avg turnover	A\$m	0.7
Number shares on issue	m	2,051

Investment fundamentals

Year end 30 Jun		2021A	2022E	2023E	2024E
Revenue	m	0.0	81.3	224.2	236.4
EBITDA	m	-16.2	2.8	67.5	74.1
EBIT	m	-22.2	-11.7	34.5	40.0
Reported profit	m	0.3	-14.0	28.9	34.8
Adjusted profit	m	-22.2	-15.3	28.9	34.8
Gross cashflow	m	-16.2	-0.8	61.8	68.9
CFPS	¢	-0.8	0.0	2.9	3.2
CFPS growth	%	68.8	95.6	nmf	11.5
PGCFPS	x	nmf	nmf	8.9	8.0
PGCFPS rel	x	nmf	nmf	0.98	0.95
EPS adj	¢	-1.1	-0.7	1.4	1.6
EPS adj growth	%	75.5	33.6	nmf	20.7
PER adj	x	nmf	nmf	19.2	15.9
PER rel	x	nmf	nmf	1.25	1.17
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-10.9	-4.3	8.6	8.3
ROE	%	-13.3	-8.1	11.7	11.4
EV/EBITDA	x	-37.1	215.1	9.1	8.3
Net debt/equity	%	-10.8	33.7	8.4	-7.3

PAN AU rel Small Ordinaries performance, & 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, February 2022

(all figures in AUD unless noted)

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Panoramic Resources (PAN AU)

Ramp up under way

Key points

- ▶ PAN's 1HFY22 result was better than we had expected due to higher levels of capitalised costs.
- ▶ Production rates at Savannah are ramping up with the second concentrate shipment completed earlier this month.
- ▶ Moving to two shipments per quarter will see PAN start to generate strong cash flow and we retain our Outperform rating.

Event

- PAN's 1HFY22 earnings result was better than we had expected due to more expenses being capitalised during the ramp up phase.

Impact

- **Earnings result better than expected:** PAN reported a modest net profit of A\$1.2m in the 1HFY22, materially better than our forecast loss of A\$29.7m. The variance was attributable to a higher level of operating costs being capitalised during the period, which saw only one shipment completed in December, than we had anticipated.
- **Cash flow was broadly in line:** Despite the larger variance in earnings, we note that the free cash outflow for the half and PAN's net debt position of A\$70.4m (including lease liabilities) was within \$4m of our forecast. There was a large variance in operation cash flow, driven by the cost capitalisation difference.

Earnings and target price revision

- We narrow our forecast loss for PAN by 63% in FY22E after incorporating the stronger 1HFY22 result. We have not made any material changes to our base case assumptions with our FY23 -FY26E earnings forecasts moving less than 1% each year.
- Our A\$0.30 price target remains unchanged. Movements in nickel prices and delivering on its shipment targets present key risks to our base case earnings forecasts and valuation for PAN.

Price catalyst

- 12-month price target: A\$0.30 based on a 1.0x NPV methodology.
- Catalyst: Confirmation of additional shipments from Savannah present a key near-term catalyst for PAN.

Action and recommendation

- **Maintain Outperform:** PAN's 1HFY22 earnings results was better than we had expected with the variance due to higher levels of costs being capitalised during the ramp up period compared to our base case. PAN's net debt at the end of December was broadly in line with our forecasts. The lifting of the Western Australian border should enable PAN to ramp up mining and stoping rates as the company is heavily reliant on Northern Territory based workforce. A spot price scenario generates +200% higher earnings for FY23E and FY24E.

Fig 1 1HFY22 earnings result overview

What we liked	What we didn't like	What we thought was interesting
<p>Revenue a beat</p> <ul style="list-style-type: none"> PAN reported 1HFY22 revenue of A\$21.6m which was 13% ahead of our expectations. We note that PAN only recorded one shipment in 1HFY22 following the restart of Savannah. <p>Free cash flow variance minimal</p> <ul style="list-style-type: none"> The free cash outflow of A\$50.1m was within A\$4m of our expectations, despite the variance in operating cash flow. <p>Net debt marginally lower</p> <ul style="list-style-type: none"> PAN reported net debt of A\$70.4m (including lease liabilities) at the end of 1HFY21 which was 4% better than our expectations. <p>Shipments to accelerate in 2HFY22</p> <ul style="list-style-type: none"> PAN shipped 0.70kt of contained nickel in 1HFY22 and expects to ship 7-10kt of concentrate in 2HFY22 over 4 shipments. <p>Strong share price performance</p> <ul style="list-style-type: none"> Nickel prices increased strongly in the CY21, and PAN saw a doubling of its share price as it re-risked towards the restart of production and sales. 	<p>Earnings differ due to accounting treatment</p> <ul style="list-style-type: none"> PAN reported a modest net profit of A\$1.2m in the 1HFY22, materially better than our forecast loss of A\$29.7m. The variance was attributable to a higher level of operating costs being capitalised during the period <p>Ore mined below expectations in 2Q</p> <ul style="list-style-type: none"> PAN's 2QFY22 result was mixed. Ore mined of 76.4kt was 31% lower than we had forecast while average grades mined of 1.03% for nickel, 0.57% for copper and 0.07% for cobalt were broadly in line with our estimates. <p>Labour shortage impacting mining</p> <ul style="list-style-type: none"> PAN noted that labour shortages are likely to impact mining with underground activity to focus on development over production in December and January. Western Australia border reopening is a key catalyst to relieve the labour stress. 	<p>First shipment in December</p> <ul style="list-style-type: none"> PAN's first shipments from Savannah occurred in late December, with delivery to Jinchuan in China. <p>Second shipment in February</p> <ul style="list-style-type: none"> PAN completed its second concentrate shipment from Savannah in mid-February. The shipment had a value of A\$20.7m, and the receipt of this cash will reduce PAN's near-term funding pressure during the ramp up phase <p>First stope mined at Savannah North</p> <ul style="list-style-type: none"> The first stope has been mined from the Savannah North deposit and paste fill preparation is now underway. Grade control drilling at Savannah North has confirmed continuity of mineralisation and has increased confidence in the reserve model and stope designs <p>Material upside at spot prices</p> <ul style="list-style-type: none"> Buoyant nickel prices continue to drive earnings upside risk and we note that a spot price scenario generates +200% higher earnings for FY23E and FY24E, respectively

Source: PAN, Macquarie Research, February 2022

Earnings result better than expected

- PAN reported a modest net profit of A\$1.2m in the 1HFY22, materially better than our forecast loss of A\$29.7m. The variance was attributable to a higher level of operating costs being capitalised during the period, which saw only one shipment completed in December, than we had anticipated.
- Despite the larger variance in earnings, we note that the free cash outflow for the half and PAN's net debt position of A\$70.4m (including lease liabilities) was within \$4m of our forecast. There was a large variance in operation cash flow, driven by the cost capitalisation difference

Fig 2 Earnings loss better than we expected

Interim	1H22e	Actual	Var
Sales Revenue (A\$m)	19.1	21.6	13%
EBITDA (A\$m)	(24.3)	3.8	nm
EBIT (A\$m)	(28.6)	0.6	nm
Underlying profit (A\$m)	(29.7)	(0.1)	nm
Net Profit (A\$m)	(29.7)	1.2	nm
DPS (Ac)	0.0	0.0	nm
Operating Cash Flow (A\$m)	(42.9)	(16.0)	(63%)
Free Cash Flow (A\$m)	(54.2)	(50.1)	(8%)
Net Cash/(Debt) (A\$m)	(73.0)	(70.4)	(4%)

Source: Macquarie Research, February 2022

Reducing forecast loss for FY22

- We narrow our forecast loss for PAN by 63% in FY22E after incorporating the stronger 1HFY22 result. We have not made any material changes to our base case assumptions with our FY23 -FY26E earnings forecasts moving less than 1% each year. Our A\$0.30 price target remains unchanged

Fig 3 Narrowing FY22 forecast loss

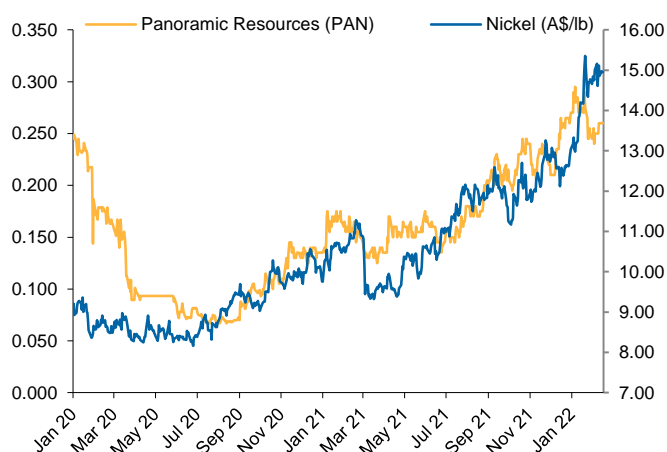
Y/E June	FY22e	FY23e	FY24e	FY25e	FY26e	NPV
Net profit (A\$m) - old	(40.6)	29.0	34.9	65.9	84.5	0.30
Net profit (A\$m) - new	(15.3)	28.9	34.8	65.9	84.6	0.30
Change	(63%)	(1%)	(0%)	(0%)	0%	

Source: PAN, Macquarie Research, February 2022

PAN's share price has underperformed nickel prices

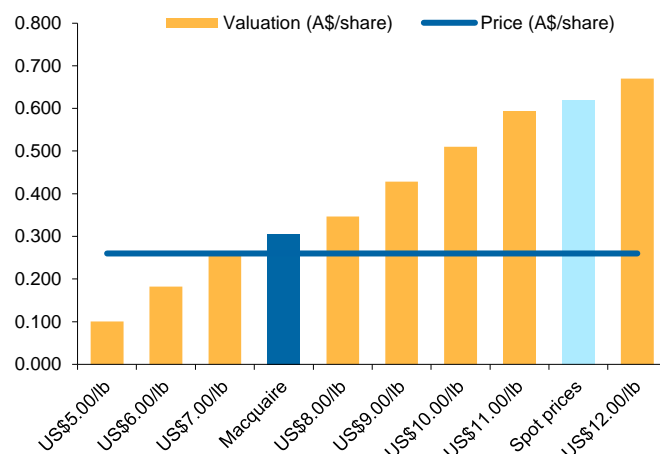
- PAN's share price has remained relatively flat in 2022, significantly underperforming spot nickel prices, which have risen 14% in both US\$ and A\$ over the same period. We estimate PAN's share price is factoring in a spot nickel price around US\$7.00/lb assuming spot prices for copper, cobalt and the A\$/US\$.

Fig 4 PAN's share price has underperformed nickel prices in 2022



Source: Bloomberg, Macquarie Research, February 2022

Fig 5 PAN's share price currently factoring in a US\$7.00/lb nickel price

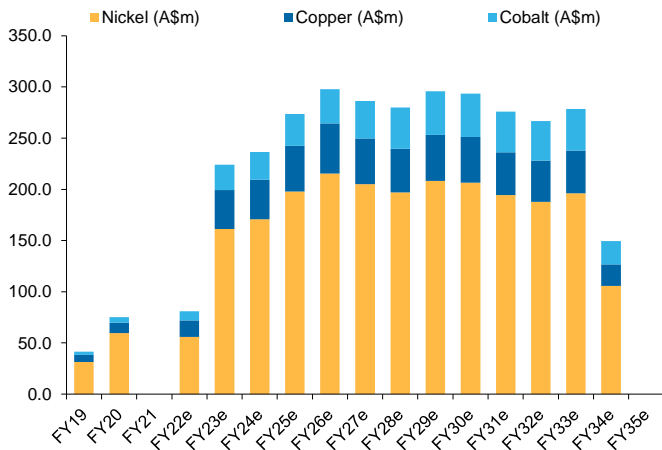


Source: Bloomberg, PAN, Macquarie Research, February 2022

Risks

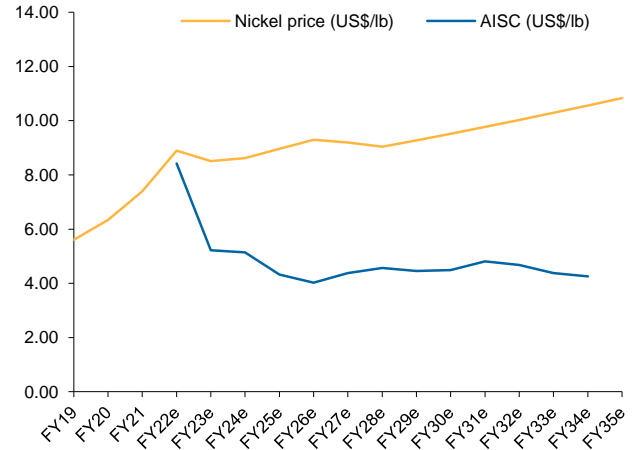
- Our production ramp-up and costs assumptions are the key risks to our forecasts for PAN. Movements in nickel, copper and cobalt prices that vary compared to our forecasts also present risk to our earnings estimates and valuation for PAN

Fig 6 Savannah production by commodity



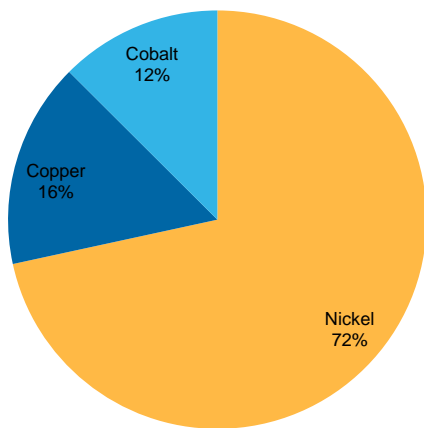
Source: PAN, Macquarie Research, February 2022

Fig 7 Savannah AISC vs nickel price



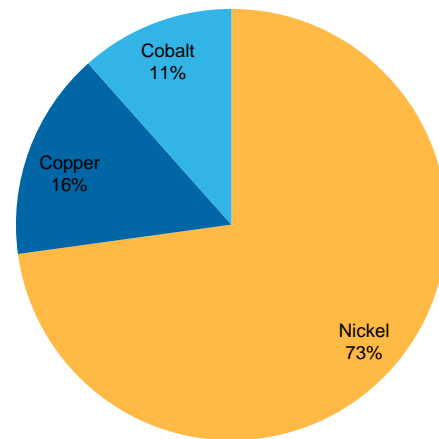
Source: PAN, Macquarie Research, February 2022

Fig 8 Revenue mix – Macquarie forecasts



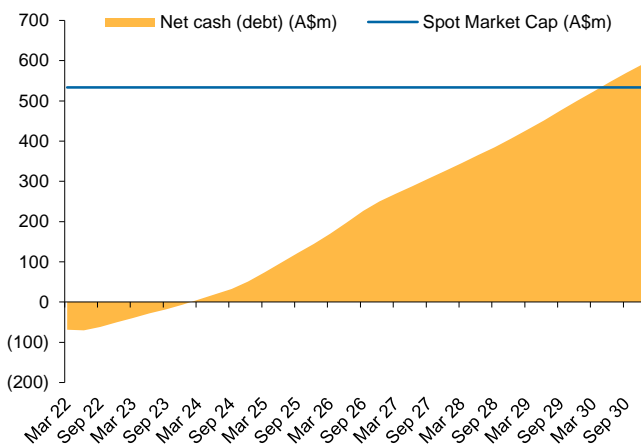
Source: PAN, Macquarie Research, February 2022

Fig 9 Revenue mix – Spot prices



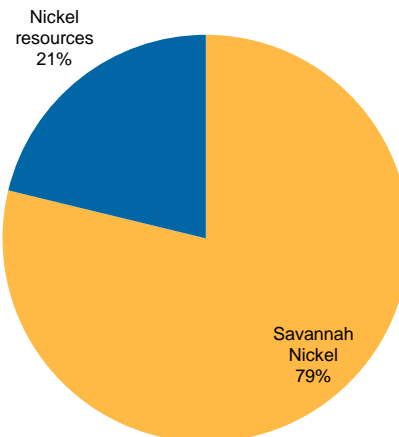
Source: PAN, Macquarie Research, February 2022

Fig 10 PAN cash build vs market cap



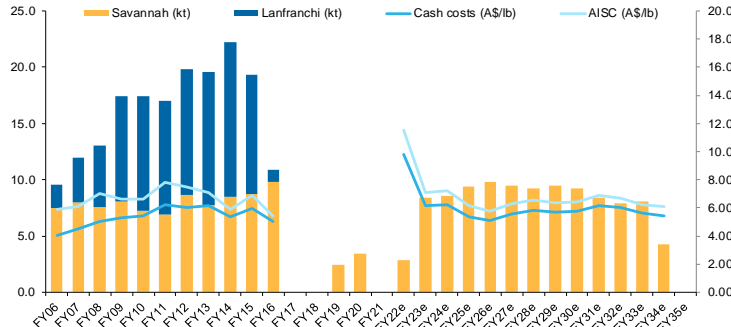
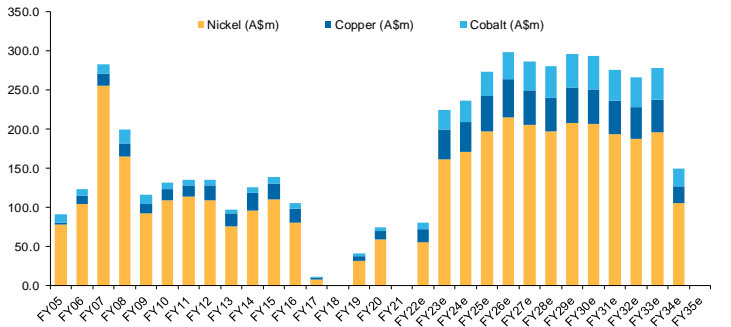
Source: PAN, Macquarie Research, February 2022

Fig 11 PAN NPV breakdown



Source: PAN, Macquarie Research, February 2022

Fig 12 PAN summary financials

Panoramic Resources							Year end:	Jun	Rating:	Outperform	Up/dn	TSR				
ASX: PAN	Price: (A\$ps)	A\$0.26					Diluted shares (m)	2,051	Target:	A\$0.30	15%	15%				
	Mkt cap: (A\$m)	533														
ASSUMPTIONS							ATTRIBUTABLE MINE OUTPUT									
		FY21	FY22e	FY23e	FY24e	FY25e	FY26e	Production forecasts								
Exchange Rate	A\$/US\$	0.75	0.73	0.74	0.71	0.71	0.70	Nickel in concentrate	(kt)	3.4	0.0	2.8	8.4	8.5	9.4	9.8
Nickel Price	US\$/lb	7.39	8.89	8.50	8.62	8.96	9.30	Copper in concentrate	(kt)	2.2	0.0	1.9	4.8	4.8	5.3	5.4
Nickel Price	A\$/lb	9.88	12.17	11.57	12.10	12.71	13.28	Cobalt in concentrate	(kt)	0.2	0.0	0.2	0.7	0.7	0.7	0.8
RATIO ANALYSIS							Cost forecasts									
		FY21	FY22e	FY23e	FY24e	FY25e	FY26e	C1 cash costs	(A\$/lb)	14.54	nm	8.90	5.32	5.39	4.47	4.13
Diluted share capital	m	2,050.9	2,125.8	2,125.8	2,125.8	2,125.8	2,125.8	AISC	(A\$/lb)	17.67	nm	11.52	7.11	7.21	6.12	5.75
EPS (diluted and pre sig. items)	A¢	(1.1)	(0.7)	1.4	1.6	3.1	4.0	AISC	(US\$/lb)	11.85	nm	8.42	5.22	5.14	4.32	4.03
P/E	x	nm	nm	19.2x	15.9x	8.4x	6.5x	OPERATIONAL OUTLOOK								
CFPS	A¢	(0.9)	(0.4)	2.8	3.2	4.5	5.5									
P/CF	x	(30.2x)	(71.8x)	9.4x	8.2x	5.8x	4.7x									
DPS	A¢	0.0	0.0	0.0	0.0	0.0	2.0									
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	7.7%									
Franking Level	%	0%	0%	0%	0%	0%	0%									
Book value per share	x	0.08	0.10	0.13	0.15	0.19	0.23									
P/Book value	x	3.2x	2.7x	1.9x	1.7x	1.4x	1.1x									
R.O.E. (pre sig items)	%	(13%)	(7%)	10%	11%	16%	17%									
R.O.A. (pre sig items)	%	(11%)	(3%)	8%	8%	12%	13%									
Interest Cover	x	(1,166x)	nm	6x	8x	15x	23x									
EBITDA per share	A\$ps	(0.01)	0.00	0.03	0.03	0.05	0.06									
EV/EBITDA	x	nm	nm	8.7x	7.2x	4.3x	2.8x									
Free cash flow Yield	%	(1%)	(10%)	8%	9%	14%	18%									
EARNINGS							SAVANNAH REVENUE MIX									
		FY21	FY22e	FY23e	FY24e	FY25e	FY26e									
Sales Revenue	A\$m	0	81	224	236	274	298									
Other Revenue	A\$m	2	0	0	0	0	0									
Total Revenue	A\$m	2	81	224	236	274	298									
Operating Costs	A\$m	(11)	(71)	(149)	(154)	(160)	(165)									
Operational EBITDA	A\$m	(10)	10	76	82	114	133									
Exploration Expense/Write-offs	A\$m	(1)	(1)	(1)	(1)	(1)	(1)									
Corporate & Other Costs	A\$m	(7)	(7)	(8)	(8)	(9)	(9)									
EBITDA	A\$m	(17)	2	66	73	104	123									
D&A	A\$m	(5)	(14)	(32)	(33)	(34)	(35)									
EBIT	A\$m	(22)	(12)	35	40	70	88									
Net Interest	A\$m	(0)	(4)	(6)	(5)	(5)	(4)									
Profit Before Tax	A\$m	(22)	(15)	29	35	66	85									
Tax Expense	A\$m	0	0	0	0	0	0									
Minorities	A\$m	0	0	0	0	0	0									
Adjusted NPAT	A\$m	(22)	(15)	29	35	66	85									
Significant items (post tax)	A\$m	22	1	0	0	0	0									
Reported NPAT	A\$m	0	(14)	29	35	66	85									
CASHFLOW							RESERVES AND RESOURCES (ATTRIBUTABLE)									
		FY21	FY22e	FY23e	FY24e	FY25e	FY26e	Savannah Reserves								
Net Profit	A\$m	0	(14)	29	35	66	85	Commodity (kt)								
Interest/Tax/D&A	A\$m	5	14	32	33	34	34	Nickel	Mt	% Ni	Ni (kt)					
Working Capital/Other	A\$m	(23)	(8)	(2)	(0)	(3)	(2)	Copper	8.3	1.23%	101.8					
Net Operating Cashflow	A\$m	(18)	(8)	59	67	96	117	Cobalt		0.09%	7.6					
Capex	A\$m	(12)	(52)	(19)	(19)	(18)	(17)	Savannah Resources								
Investments	A\$m	24	5	2	0	0	0	Commodity (kt)								
Sale of PPE and Other	A\$m	0	0	0	0	0	0	Nickel	13.5	1.56%	209.8					
Free cash flow	A\$m	(6)	(55)	42	48	78	100	Copper		0.70%	94.2					
Dividends Paid	A\$m	0	0	0	0	0	0	Cobalt		0.10%	13.7					
Debt	A\$m	(1)	36	(5)	(5)	(5)	(26)									
Equity Issuance	A\$m	0	0	5	0	0	0									
Other	A\$m	0	0	0	0	0	0									
Net Financing Cashflow	A\$m	(1)	36	(0)	(5)	(5)	(26)									
Net change in cash	A\$m	(7)	(19)	41	43	73	74									
BALANCE SHEET							EQUITY DCF VALUATION									
		FY21	FY22e	FY23e	FY24e	FY25e	FY26e	Spot Prices		Macquarie Forecasts						
Cash	A\$m	24	6	47	90	163	238	Projects	A\$m	A\$ps	A\$m	A\$ps				
PP&E & Mine Development	A\$m	166	236	222	208	192	175	Savannah Nickel	1,168	0.55	599	0.28				
Exploration	A\$m	6	6	7	8	9	10	Nickel resources	186	0.09	138	0.06				
Total Assets	A\$m	202	346	459	504	599	672	Investments	1	0.00	1	0.00				
Debt	A\$m	6	76	71	66	61	35	New Equity	5	0.00	5	0.00				
Total Liabilities	A\$m	35	138	174	177	190	173	Forwards	0	0.00	0	0.00				
Total Net Assets / Equity	A\$m	167	208	285	327	408	499	Corporate	(43)	(0.02)	(43)	(0.02)				
Net Debt / (Cash)	A\$m	(18)	70	24	(24)	(102)	(202)	Net cash (debt)	1	0.00	(50)	(0.02)				
Gearing (net debt/(nd + equity))	%	(12%)	25%	8%	(8%)	(33%)	(68%)	Net Equity Value (@ 10.4% (nom) WACC)	1,318	0.62	649	0.31				
Gearing (net debt/equity)	%	(11%)	34%	8%	(7%)	(25%)	(40%)	Price Target (1.0x NPV)	0.30							

Source: PAN, Macquarie Research, February 2022

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 / efpowa*

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 Dec 2021

	AU/NZ	Asia	USA	
Outperform	67.47%	65.68%	78.49%	(for global coverage by Macquarie, 7.30% of stocks followed are investment banking clients)
Neutral	27.05%	22.88%	20.43%	(for global coverage by Macquarie, 3.57% of stocks followed are investment banking clients)
Underperform	5.48%	11.44%	1.08%	(for global coverage by Macquarie, 1.06% of stocks followed are investment banking clients)

PAN AU vs Small Ordinaries, & 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, February 2022

12-month target price methodology

PAN AU: A\$0.30 based on a 1.0x NPV methodology

Company-specific disclosures:

Important disclosure information regarding the subject companies covered in this report is available publicly at www.macquarie.com/research/disclosures. Clients receiving this report can additionally access previous recommendations (from the year prior to publication of this report) issued by this report's author at <https://www.macquarieinsights.com>.

Date	Stock Code (BBG code)	Recommendation	Target Price
17-Feb-2022	PAN AU	Outperform	A\$.30
28-Jan-2022	PAN AU	Outperform	A\$.29
10-Dec-2021	PAN AU	Outperform	A\$.30
20-Oct-2021	PAN AU	Outperform	A\$.28
17-Sep-2021	PAN AU	Neutral	A\$.23
31-Aug-2021	PAN AU	Neutral	A\$.21
22-Jul-2021	PAN AU	Outperform	A\$.20
29-Apr-2021	PAN AU	Outperform	A\$.19
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

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