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28 January 2022

Australia

EQUITIES

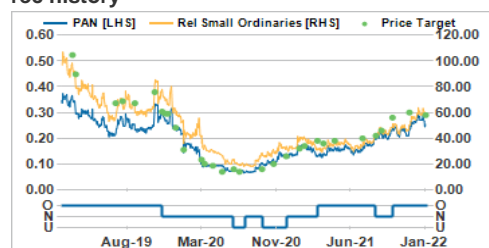
PAN AU Outperform
Price (at 03:21, 28 Jan 2022 GMT) A\$0.25

Valuation	A\$	0.29
- DCF (WACC 7.8%, beta 1.3, ERP 5.0%, RFR 2.4%, TGR 2.6%)		
12-month target	A\$	0.29
12-month TSR	%	+16.0
Volatility Index		Very High
GICS sector		Materials
Market cap	A\$m	513
30-day avg turnover	A\$m	1.4
Number shares on issue	m	2,051

Investment fundamentals

Year end 30 Jun		2021A	2022E	2023E	2024E
Revenue	m	0.0	87.3	209.7	221.4
EBITDA	m	-16.2	-21.4	59.3	65.7
EBIT	m	-22.2	-35.7	32.7	38.1
Reported profit	m	0.3	-38.8	29.1	34.9
Adjusted profit	m	-22.2	-38.8	29.1	34.9
Gross cashflow	m	-16.2	-24.5	55.7	62.5
CFPS	¢	-0.8	-1.2	2.6	2.9
CFPS growth	%	68.8	-48.1	nmf	12.2
PGCFPS	x	nmf	nmf	9.5	8.5
PGCFPS rel	x	nmf	nmf	1.07	1.05
EPS adj	¢	-1.1	-1.8	1.4	1.6
EPS adj growth	%	75.5	-70.4	nmf	20.2
PER adj	x	nmf	nmf	18.3	15.2
PER rel	x	nmf	nmf	1.28	1.21
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-10.9	-16.0	12.0	11.9
ROE	%	-13.3	-23.3	15.2	14.8
EV/EBITDA	x	-30.6	-23.4	8.6	7.8
Net debt/equity	%	-10.8	21.7	-2.5	-18.3

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, January 2022

(all figures in AUD unless noted)

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Panoramic Resources (PAN AU)

Shipments set to accelerate

Key points

- ▶ PAN has returned to producer status with the completion of the first concentrate shipment from Savannah in late December.
- ▶ The ongoing Western Australian State Border closure presents a major near-term risk for PAN to manage onsite staffing levels.
- ▶ Delivering on our production ramp up targets at Savannah present a key risk to our earnings in the near-term.

Event

- PAN's 2QFY22 result was mixed with lower mining rates offset by higher mill throughput and broadly in line nickel in concentrate production.

Impact

- **Mixed production and shipments in the 2QFY22:** PAN produced and shipped 0.78kt and 0.70kt of contained nickel in concentrate in the 2QFY22, 1% higher and 8% lower than our forecasts, respectively. The lower shipments combined with higher operating costs resulted in weaker cash flow.
- **Increased shipping rate in the 2HFY22:** PAN has indicated it expects to complete four 7-10kt concentrate shipments in the 2HFY22 and we have lowered our 2HFY22 forecast to 34.4kt to bring our estimate in the middle of the guidance range.

Earnings and target price revision

- We are downgrading our earnings forecasts for PAN after incorporating the 2QFY22 result. We widen our FY22E forecast loss to account for higher operating costs due to the extended closure of the Western Australian State Border. For FY23E and FY24E our earnings fall 14% and 13% due to higher shipping costs, with this also reducing FY25E and FY26E earnings by 7% and 6%, respectively.
- The weaker earnings outlook drives a 3% cut to our price target to A\$0.29. Our production ramp-up and costs assumptions are the key risks to our forecasts for PAN. The ongoing Western Australian State Border closure presents additional staffing risks 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.

Price catalyst

- 12-month price target: A\$0.29 based on a 1.0x NPV methodology.
- Catalyst: Updates on the Western Australian State Border closure and likely impact on staffing levels at Savannah present a key near-term catalyst.

Action and recommendation

- **Maintain Outperform:** PAN's 2QFY22 result was mixed with lower mining rates and recoveries offset by higher milling rates, with concentrate production and shipments broadly in line with our estimates. The commencement of mining at Savannah North was also a key milestone achieved during the 2QFY22. PAN expects to complete four 7-10kt concentrate shipments in the 2HFY22 and we have adjusted our forecasts to match this guidance.

Mixed 2QFY22 production result

- 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. The first stope at Savannah North was mined late in the 2QFY22 extracting 12.2kt @ 1.22% Ni, 0.51% Cu and 0.09% Co.
- Ore stockpiled at surface at the end of December was 60.4kt. PAN indicated it had modified its mining scheduled due to the labour availability issues caused by the Western Australian Border closure. Until the border is opened, mining will focus on development over production stoping. Mill throughput was 37% higher than we had forecast, although this was offset by lower recovery rates for nickel, copper, and cobalt.
- Concentrate production of 11.1kt for the 2QFY22 was 8% higher than we had expected although contained nickel in concentrate of 0.78kt was in line with our estimate. Contained copper produced was 18% higher while contained cobalt produced was 7% lower than our estimates, respectively. Concentrate shipments of 10.0kt was within 2% of our estimate, although contained metal was 8% lower for nickel, 7% higher for copper and 16% lower for cobalt compared to our estimates.

Fig 1 2QFY22 production result was mixed

Mining performance	Macquarie	Actual	Variance
Mined (kt)	130.0	76.4	(41%)
Nickel grade (%)	1.03%	1.03%	0%
Nickel in ore (kt)	1.34	0.79	(41%)
Copper grade (%)	0.55%	0.57%	3%
Cobalt grade (%)	0.07%	0.07%	(0%)
Process plant			
Milled (kt)	90.0	123.7	37%
Nickel grade (%)	1.03%	0.99%	(4%)
Nickel recovery (%)	83%	64%	(23%)
Copper grade (%)	0.55%	0.55%	(0%)
Copper recovery (%)	95%	82%	(13%)
Cobalt grade (%)	0.07%	0.06%	(15%)
Cobalt recovery (%)	90%	71%	(21%)
Production			
Concentrate produced (kt)	10.3	11.1	8%
Nickel grade (%)	7.50%	7.02%	(6%)
Nickel in concentrate (kt)	0.77	0.78	1%
Copper grade (%)	4.60%	5.03%	9%
Copper in concentrate (kt)	0.47	0.56	18%
Cobalt grade (%)	0.56%	0.48%	(14%)
Cobalt in concentrate (kt)	0.06	0.05	(7%)
Shipments			
Concentrate sold (kt)	10.3	10.0	(2%)
Nickel grade (%)	7.50%	7.02%	(6%)
Nickel in concentrate (kt)	0.77	0.70	(8%)
Copper grade (%)	4.60%	5.05%	10%
Copper in concentrate (kt)	0.47	0.51	7%
Cobalt grade (%)	0.56%	0.48%	(14%)
Cobalt in concentrate (kt)	0.06	0.05	(16%)

Source: PAN, Macquarie Research, January 2022

Downgrading our earnings forecasts and price target

- We are downgrading our earnings forecasts for PAN after incorporating the 2QFY22 result. We widen our FY22 forecast loss to account for higher operating costs due to the extended closure of the Western Australian State border. For FY23 and FY24 our earnings fall 14% and 13% due to higher shipping costs, with this also reducing FY25 and FY26 earnings by 7% and 6%, respectively. The weaker earnings outlook drives a 3% cut to our price target to A\$0.29.

Fig 2 Downgrading earnings and price target

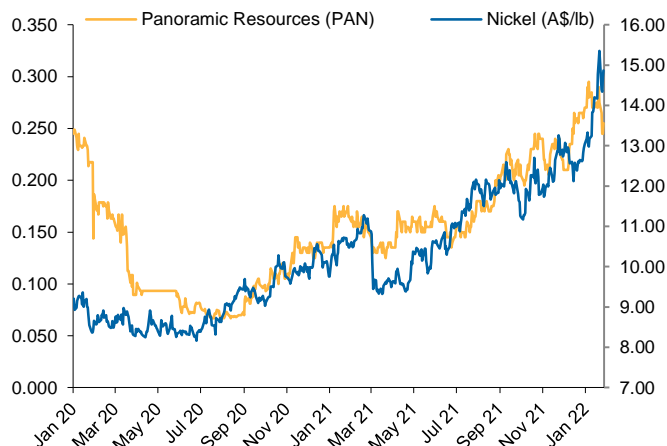
Y/E June	FY22e	FY23e	FY24e	FY25e	FY26e	Price Target
EPS (A¢) - old	(0.9)	1.6	1.9	3.4	4.2	0.30
EPS (A¢) - new	(1.8)	1.4	1.6	3.1	4.0	0.29
Change	nm	(15%)	(13%)	(8%)	(6%)	(3%)

Source: PAN, Macquarie Research, January 2022

PAN's share price has underperformed nickel in CY22

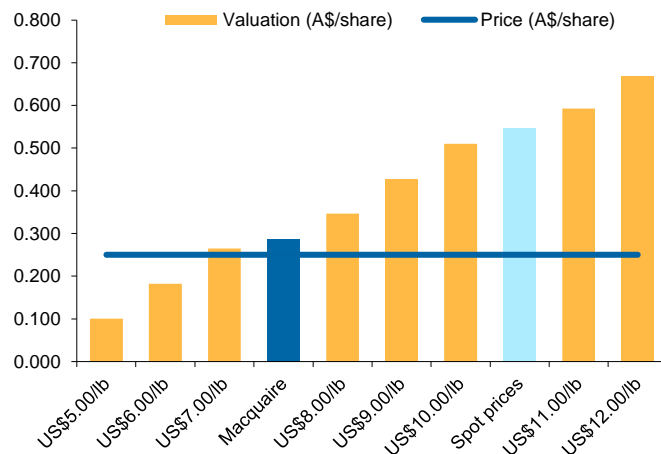
- PAN's share price doubled in CY21, comfortably outperforming spot nickel prices, which were up 26% in US\$ and 34% in A\$ over the same period. However, in CY22 PAN's share price is down 6%, significantly underperforming spot nickel prices which are up 10% and 13% in US\$ and A\$, respectively.
- We 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 3 PAN has outperformed nickel recently as production recommences



Source: Bloomberg, Macquarie Research, January 2022

Fig 4 PAN's share price currently factoring in a US\$7.00/lb nickel price

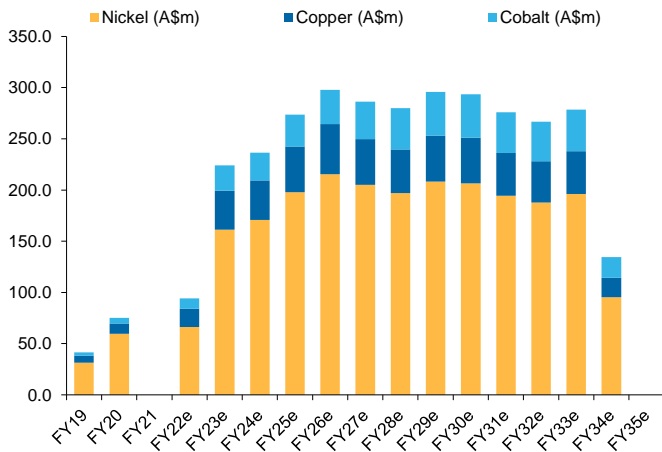


Source: Bloomberg, PAN, Macquarie Research, January 2022

Key risks to our base case

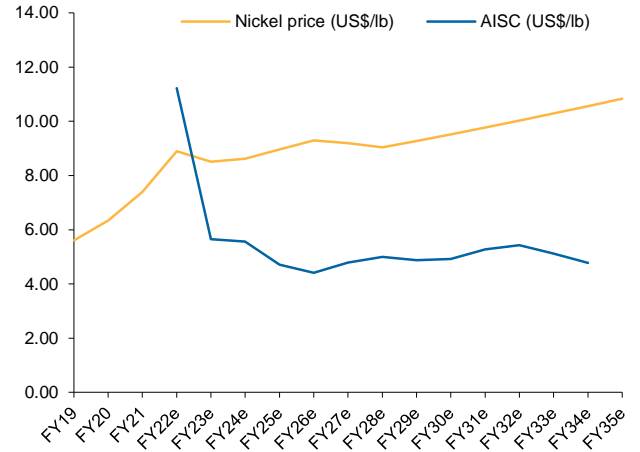
- Our production ramp-up and costs assumptions are the key risks to our forecasts for PAN. The ongoing Western Australian State Border closure presents additional staffing risks for PAN. Movements in nickel, copper and cobalt prices that vary compared to our forecasts also present risk to our earnings estimates and valuation for PAN.

Fig 5 Savannah production by commodity



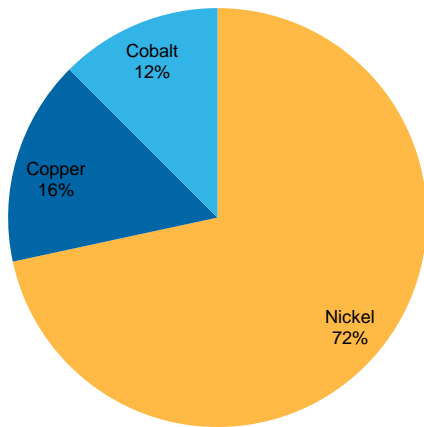
Source: PAN, Macquarie Research, January 2022

Fig 6 Savannah AISC vs nickel price



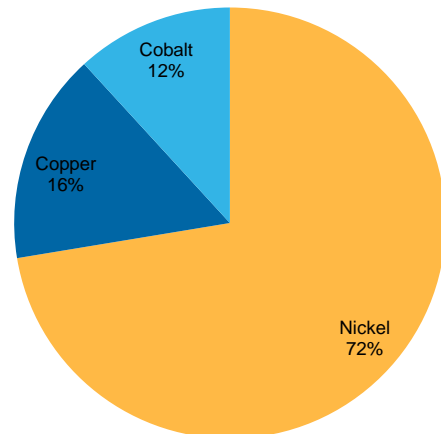
Source: PAN, Macquarie Research, January 2022

Fig 7 Revenue mix – Macquarie forecasts



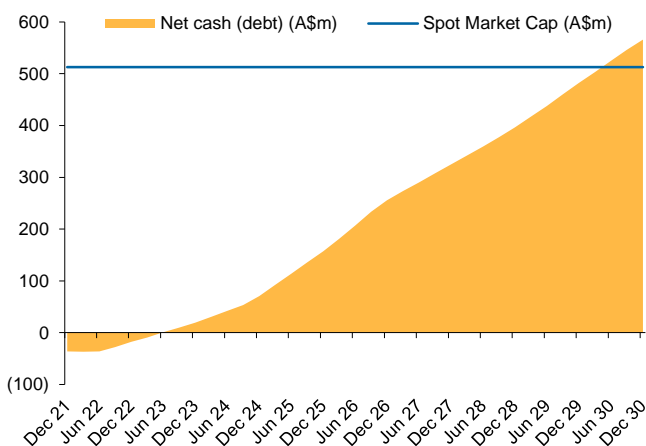
Source: PAN, Macquarie Research, January 2022

Fig 8 Revenue mix – Spot prices



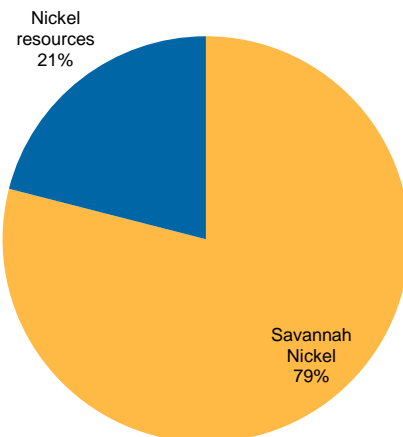
Source: PAN, Macquarie Research, January 2022

Fig 9 PAN cash build vs market cap



Source: PAN, Macquarie Research, January 2022

Fig 10 PAN NPV breakdown



Source: PAN, Macquarie Research, January 2022

Fig 11 PAN summary financials

Panoramic Resources															
ASX: PAN	Price: (A\$ps)	A\$0.25		Year end:	Jun	Rating: Outperform	Up/dn	TSR							
	Mkt cap: (A\$m)	513		Diluted shares (m)	2,051	Target: A\$0.29	16%	16%							
ASSUMPTIONS	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	ATTRIBUTABLE MINE OUTPUT								
Exchange Rate	A\$/US\$	0.75	0.73	0.74	0.71	0.71	Production forecasts								
Nickel Price	US\$/lb	7.39	8.89	8.50	8.62	8.96	Nickel in concentrate	(kt)	3.4	0.0	3.4	8.4	8.5	9.4	9.8
Nickel Price	A\$/lb	9.88	12.17	11.57	12.10	12.71	Copper in concentrate	(kt)	2.2	0.0	2.1	4.8	4.8	5.3	5.4
							Cobalt in concentrate	(kt)	0.2	0.0	0.2	0.7	0.7	0.7	0.8
RATIO ANALYSIS	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	Cost forecasts								
Diluted share capital	m	2,050.9	2,125.8	2,125.8	2,125.8	2,125.8	C1 cash costs	(A\$/lb)	14.54	nm	13.46	5.91	5.99	5.03	4.68
EPS (diluted and pre sig. items)	A¢	(1.1)	(1.8)	1.4	1.6	3.1	AISC	(A\$/lb)	17.67	nm	15.35	7.69	7.81	6.68	6.30
P/E	x	nm	nm	18.3x	15.2x	8.1x	AISC	(US\$/lb)	11.85	nm	11.22	5.65	5.56	4.71	4.41
CFPS	A¢	(0.9)	(1.4)	2.5	2.9	4.2	OPERATIONAL OUTLOOK								
P/CF	x	(29.0x)	(17.3x)	9.9x	8.8x	5.9x	Savannah (kt)								
DPS	A¢	0.0	0.0	0.0	0.0	0.0	Lanfranchi (kt)								
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	Cash costs (A\$/lb)								
Franking Level	%	0%	0%	0%	0%	0%	AISC (A\$/lb)								
Book value per share	x	0.08	0.08	0.10	0.12	0.15	Savannah Revenue Mix								
P/Book value	x	3.1x	3.2x	2.5x	2.1x	1.6x	Nickel (A\$m)								
R.O.E. (pre sig items)	%	(13%)	(23%)	13%	14%	20%	Copper (A\$m)								
R.O.A. (pre sig items)	%	(11%)	(15%)	11%	11%	17%	Cobalt (A\$m)								
Interest Cover	x	(1,166x)	nm	9x	12x	26x									
EBITDA per share	A\$ps	(0.01)	(0.01)	0.03	0.03	0.04									
EV/EBITDA	x	nm	nm	9.0x	7.5x	4.3x									
Free cash flow Yield	%	(1%)	(10%)	7%	8%	13%									
EARNINGS	FY21	FY22e	FY23e	FY24e	FY25e	FY26e									
Sales Revenue	A\$m	0	87	210	221	258									
Other Revenue	A\$m	2	0	0	0	0									
Total Revenue	A\$m	2	87	210	221	258									
Operating Costs	A\$m	(11)	(101)	(142)	(147)	(153)									
Operational EBITDA	A\$m	(10)	(13)	67	74	105									
Exploration Expense/Write-offs	A\$m	(1)	(1)	(1)	(1)	(1)									
Corporate & Other Costs	A\$m	(7)	(8)	(8)	(8)	(9)									
EBITDA	A\$m	(17)	(23)	58	65	96									
D&A	A\$m	(5)	(13)	(26)	(26)	(27)									
EBIT	A\$m	(22)	(36)	33	38	69									
Net Interest	A\$m	(0)	(3)	(4)	(3)	(2)									
Profit Before Tax	A\$m	(22)	(39)	29	35	66									
Tax Expense	A\$m	0	0	0	0	0									
Minorities	A\$m	0	0	0	0	0									
Adjusted NPAT	A\$m	(22)	(39)	29	35	66									
Significant Items (post tax)	A\$m	22	0	0	0	0									
Reported NPAT	A\$m	0	(39)	29	35	66									
CASHFLOW	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	RESERVES AND RESOURCES (ATTRIBUTABLE)								
Net Profit	A\$m	0	(39)	29	35	66	Savannah Reserves								
Interest/Tax/D&A	A\$m	5	13	25	26	27	Commodity (kt)								
Working Capital/Other	A\$m	(23)	(5)	(1)	(0)	(3)	Nickel								
Net Operating Cashflow	A\$m	(18)	(31)	54	61	89	Mt								
Capex	A\$m	(12)	(28)	(19)	(19)	(17)	% Ni								
Investments	A\$m	24	5	2	0	0	Ni (kt)								
Sale of PPE and Other	A\$m	0	0	0	0	0	Copper								
Free cash flow	A\$m	(6)	(54)	37	41	93	0.59%								
Dividends Paid	A\$m	0	0	0	0	0	Cobalt								
Debt	A\$m	(1)	41	(5)	(5)	(26)	0.09%								
Equity Issuance	A\$m	0	0	5	0	0	Savannah Resources								
Other	A\$m	0	0	0	0	0	Commodity (kt)								
Net Financing Cashflow	A\$m	(1)	41	(0)	(5)	(26)	Mt								
Net change in cash	A\$m	(7)	(14)	36	37	66	% Ni								
							Ni (kt)								
							13.5								
							1.56%								
							209.8								
							0.70%								
							94.2								
							0.10%								
							13.7								
BALANCE SHEET	FY21	FY22e	FY23e	FY24e	FY25e	FY26e	EQUITY DCF VALUATION								
Cash	A\$m	24	11	47	84	150	Projects		Spot Prices		Macquarie Forecasts				
PP&E & Mine Development	A\$m	166	176	168	161	141	A\$m	A\$ps	A\$m	A\$ps					
Exploration	A\$m	6	6	7	8	9	Savannah Nickel	1,231	0.58	535	0.25				
Total Assets	A\$m	202	245	301	338	412	Nickel resources	182	0.09	128	0.06				
Debt	A\$m	6	47	42	37	32	Investments	1	0.00	1	0.00				
Total Liabilities	A\$m	35	79	84	83	84	New Equity	5	0.00	5	0.00				
Total Net Assets / Equity	A\$m	167	166	216	255	328	Forwards	0	0.00	0	0.00				
Net Debt / (Cash)	A\$m	(18)	36	(5)	(47)	(211)	Corporate	(43)	(0.02)	(43)	(0.02)				
Gearing (net debt/(nd + equity))	%	(12%)	18%	(3%)	(22%)	(104%)	Net cash (debt)	50	0.02	(18)	(0.01)				
Gearing (net debt/equity)	%	(11%)	22%	(2%)	(18%)	(51%)	Net Equity Value (@ 10.4% (nom) WACC)	1,425	0.67	607	0.29				
							Price Target (1.0x NPV)				0.29				

Source: PAN, Macquarie Research, January 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, January 2022

12-month target price methodology

PAN AU: A\$0.29 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
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

Target price risk disclosures:

PAN AU: Any inability to compete successfully in their markets may harm the business. This could be a result of many factors which may include geographic mix and introduction of improved products or service offerings by competitors. The results of operations may be materially affected by global economic conditions generally, including conditions in financial markets. The company is exposed to market risks, such as changes in interest rates, foreign exchange rates and input prices. From time to time, the company will enter into transactions, including transactions in derivative instruments, to manage certain of these exposures.

Sensitivity analysis:

Clients receiving this report can request access to a model which allows for further in-depth analysis of the assumptions used, and recommendations made, by the author relating to the subject companies covered. To request access please contact insights@macquarie.com.

Analyst certification:

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