

27 April 2022

Australia

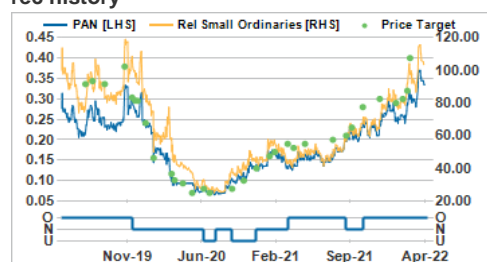
EQUITIES

PAN AU	Outperform
Price (at 02:21, 27 Apr 2022 GMT)	A\$0.32
Valuation	A\$ 0.40
- DCF (WACC 7.8%, beta 1.3, ERP 5.0%, RFR 2.4%, TGR 2.6%)	
12-month target	A\$ 0.40
12-month TSR	% +25.0
Volatility Index	Very High
GICS sector	Materials
Market cap	A\$m 656
30-day avg turnover	A\$m 2.2
Number shares on issue	m 2,051

Investment fundamentals

Year end 30 Jun		2021A	2022E	2023E	2024E
Revenue	m	0.0	125.3	259.5	241.9
EBITDA	m	-16.2	33.0	100.8	79.3
EBIT	m	-22.2	17.8	67.8	45.2
Reported profit	m	0.3	15.5	62.4	40.4
Adjusted profit	m	-22.2	14.2	62.4	40.4
Gross cashflow	m	-16.2	29.4	95.4	74.5
CFPS	¢	-0.8	1.4	4.5	3.5
CFPS growth	%	68.8	nmf	223.7	-21.9
PGCFPS	x	nmf	23.1	7.1	9.1
PGCFPS rel	x	nmf	2.70	0.84	1.10
EPS adj	¢	-1.1	0.7	2.9	1.9
EPS adj growth	%	75.5	nmf	338.5	-35.3
PER adj	x	nmf	47.8	10.9	16.8
PER rel	x	nmf	3.49	0.81	1.26
Total DPS	¢	0.0	0.0	0.0	0.0
Total div yield	%	0.0	0.0	0.0	0.0
ROA	%	-10.9	5.6	14.1	8.3
ROE	%	-13.3	6.6	20.6	11.1
EV/EBITDA	x	-44.7	22.1	7.3	9.3
Net debt/equity	%	-10.8	19.2	-9.0	-22.1

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, April 2022
(all figures in AUD unless noted)

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Panoramic Resources (PAN AU)

Turning cash flow positive

Key points

- ▶ PAN's solid 3QFY22 result has enabled the company to report positive free cash flow generation for the first time since the re-start.
- ▶ Exploration results continue to impress, and we believe are likely to translate to upgrades to reserves and resources at Savannah North.
- ▶ The ramp-up is accelerating at Savannah with a material step-up in cash flow generation expected from 1QFY23.

Event

- PAN's 3QFY22 result was solid with beats in nickel and copper production, in line shipments and stronger cash flow generation.

Impact

- **Cash build in 3QFY22 a positive surprise:** Nickel and copper production were 7% and 14% higher than we had anticipated in 3QFY22. The second and third shipments had been previously disclosed, hence were in line with our estimates. Importantly, PAN reported a small build in cash during 3QFY22, which compared to our estimate of a small cash outflow.
- **Exploration set to deliver upgrades to reserves and resources:** PAN's near mine exploration drilling continues to impress. Infill drilling in the upper lens has returned higher grades than predicted by the resource model. A new zone of mineralisation was also discovered during 3QFY22, suggesting there is upside to both tonnes and grade in the reserve and resource estimates for Savannah North.

Earnings and target price revision

- We make only minor changes to our earnings forecasts for PAN after incorporating the 3QFY22 result. Our FY22 earnings estimate rises 3% while our FY23 and beyond forecasts rise <1%. Our A\$0.40 price target is also unchanged. Movements in nickel prices and variances in shipment timing present the key risks to our forecasts for PAN.

Price catalyst

- 12-month price target: A\$0.40 based on a 1.0x NPV methodology.
- Catalyst: Updates on the shipment schedule from Savannah and results from exploration drilling present key near-term catalysts for PAN.

Action and recommendation

- **Maintain Outperform:** PAN's 3QFY22 result was solid with nickel and copper in concentrate production coming in ahead of our estimates. Mining rates are ramping up and we expect this to enable PAN to complete three concentrate shipments per quarter, which is expected to translate to a material increase in cash flow generation from 1QFY23. Near mine exploration success has been positive with higher grades and extensions likely to translate to an upgrade to reserves and resources at Savannah North. Buoyant nickel prices continue to underpin upgrade momentum for PAN with a spot price scenario generating 172% and 235% higher earnings than our base case for FY23 and FY24, respectively.

Solid 3QFY22 production result

- PAN's 3QFY22 result was solid with nickel in concentrate output 7% higher than we had forecast while copper in concentrate was 14% better than anticipated. The solid beat in output reflected higher average nickel and copper grades processed and better copper recovery rates compared to our estimates. Cobalt production was 7% lower due to a lower average grade milled.
- Mining rates were materially lower than milled throughput as PAN focused on development during the early part of 3QFY22. We note jumbo development of 1,160m was only marginally lower than the 1,235m achieved in 2QFY22. This was due to the ongoing Western Australian border closure reducing employee availability to ~70%. Since the border has reopened staff availability has improved towards 90% and we expect this will result in improved mining rates in 4QFY22.
- Concentrate shipments of 9.4kt were in line with our estimates and PAN noted that the third shipment departed on 1 April 2022, which would have doubled total shipment for 3QFY22. Average grades in the shipments were slightly lower for nickel, slightly higher for copper and materially lower for cobalt. A fourth shipment is scheduled to arrive in late May.

Fig 1 3QFY22 production result was solid

Mining performance	3QFY22e	Actual	Variance	QoQ
Mined (kt)	150.0	108.3	(28%)	42%
Nickel grade (%)	1.05%	1.10%	5%	7%
Nickel in ore (kt)	1.57	1.19	(24%)	51%
Copper grade (%)	0.55%	0.54%	(2%)	(5%)
Cobalt grade (%)	0.07%	0.05%	(31%)	(29%)
Process plant				
Milled (kt)	150.0	148.7	(1%)	20%
Nickel grade (%)	1.05%	1.12%	7%	13%
Nickel recovery (%)	75%	75%	1%	19%
Copper grade (%)	0.55%	0.59%	7%	7%
Copper recovery (%)	85%	92%	8%	12%
Cobalt grade (%)	0.07%	0.07%	(7%)	12%
Cobalt recovery (%)	80%	81%	1%	14%
Production				
Concentrate produced (kt)	15.7	17.5	11%	57%
Nickel grade (%)	7.50%	7.18%	(4%)	2%
Nickel in concentrate (kt)	1.18	1.26	7%	61%
Copper grade (%)	4.48%	4.58%	2%	(9%)
Copper in concentrate (kt)	0.70	0.80	14%	43%
Cobalt grade (%)	0.55%	0.46%	(16%)	(3%)
Cobalt in concentrate (kt)	0.09	0.08	(7%)	53%
Shipments				
Concentrate sold (kt)	9.4	9.4	0%	(6%)
Nickel grade (%)	7.50%	7.18%	(4%)	2%
Nickel in concentrate (kt)	0.71	0.68	(4%)	(4%)
Copper grade (%)	4.48%	4.58%	2%	(9%)
Copper in concentrate (kt)	0.42	0.43	2%	(15%)
Cobalt grade (%)	0.55%	0.46%	(16%)	(3%)
Cobalt in concentrate (kt)	0.05	0.04	(16%)	(9%)

Source: PAN, Macquarie Research, April 2022

Minor changes to earnings

- We make only minor changes to our earnings forecasts for PAN after incorporating the 3QFY22 result. Our FY22 earnings estimate rises 3% while our FY23 and beyond forecasts rise <1%. Our A\$0.40 price target is also unchanged.

Fig 2 Minor changes to earnings

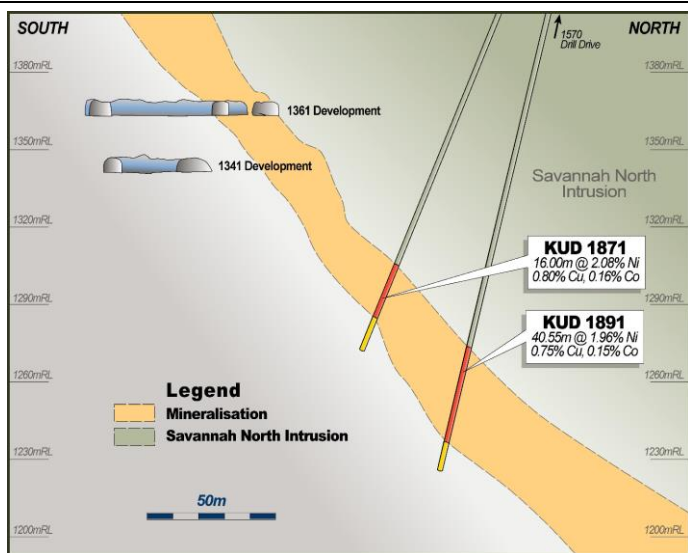
Y/E June	FY22e	FY23e	FY24e	FY25e	FY26e	Price Target
EPS (A¢) - old	13.9	62.3	40.3	73.7	66.0	0.40
EPS (A¢) - new	14.2	62.4	40.4	73.8	66.1	0.40
Change	3%	0%	0%	0%	0%	0%

Source: PAN, Macquarie Research, April 2022

Exploration results look set to deliver reserve and resource upgrades

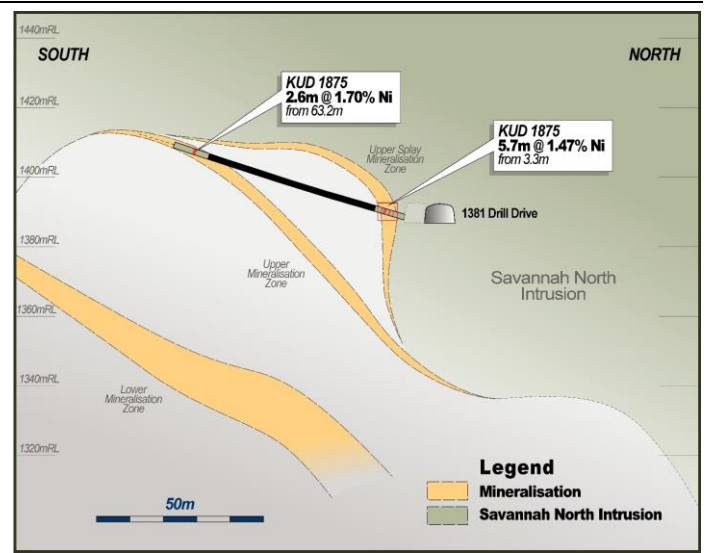
- PAN's near mine exploration drilling continues to impress. Infill drilling in the upper lens has returned higher grades than predicted by the resource model. A new zone of mineralisation was also discovered during the 3QFY22, suggesting there is upside to both tonnes and grade in the reserve and resource estimates for Savannah North.

Fig 3 Wide zone of higher-grade mineralisation



Source: PAN, April 2022

Fig 4 New mineralized zone at Savannah North

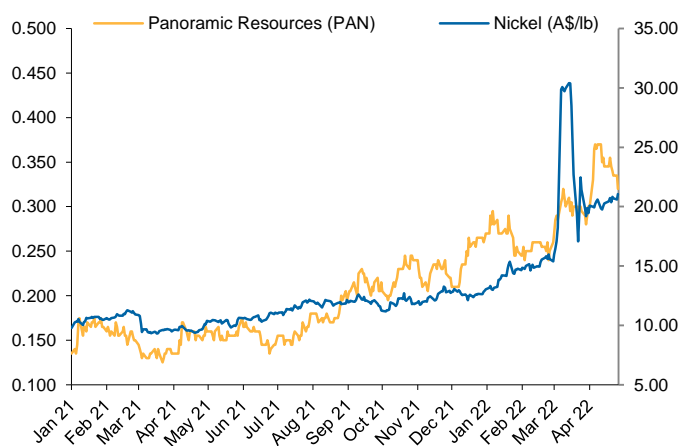


Source: PAN, April 2022

PAN's share price started to outperform the nickel price

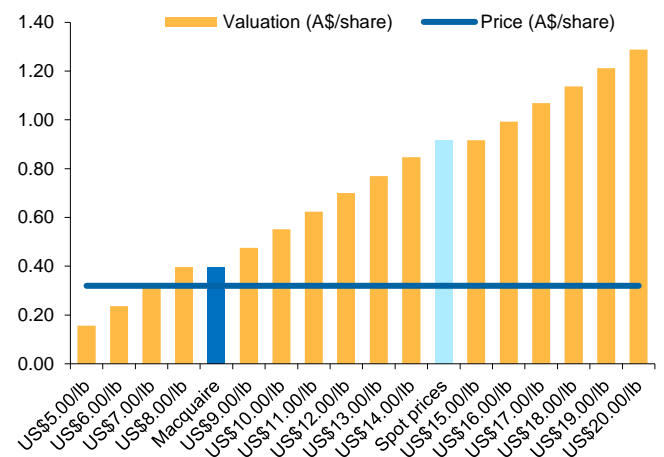
- PAN's share price broadly tracked the spot nickel price in 2021, however the stock started to outperform the nickel price as production at Savannah started to ramp up. We estimate that the current share price is factoring in a spot nickel price of US\$7.00/lb assuming spot prices for copper, cobalt, and the A\$/US\$.

Fig 5 PAN has outperformed nickel recently as production recommences



Source: Bloomberg, Macquarie Research, April 2022

Fig 6 PAN's share price currently factoring in a US\$7.00/lb nickel price

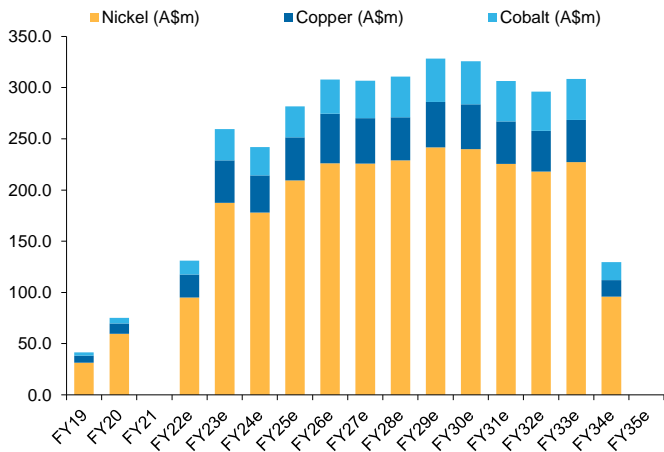


Source: Bloomberg, PAN, Macquarie Research, April 2022

Key risks to our base case

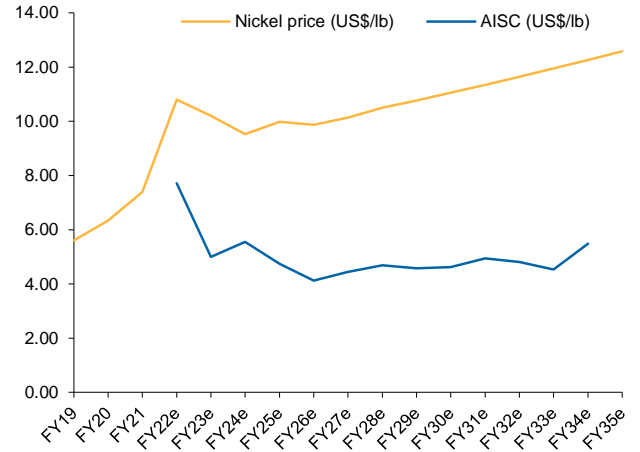
- Movements in nickel, copper and cobalt prices that vary compared to our forecasts also present risk to our earnings estimates and valuation for PAN. Our production ramp-up and costs assumptions also present potential risks to our forecasts should the actual outcomes differ from our estimates, particularly during the ramp up phase.

Fig 7 Savannah production by commodity



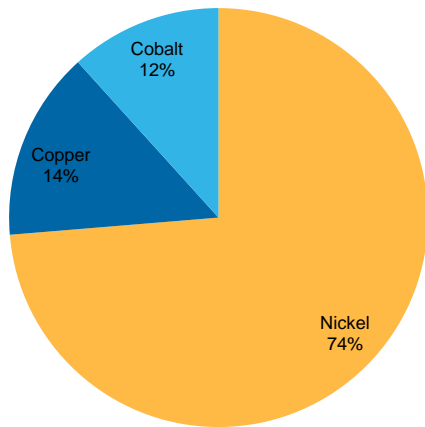
Source: PAN, Macquarie Research, April 2022

Fig 8 Savannah AISC vs nickel price



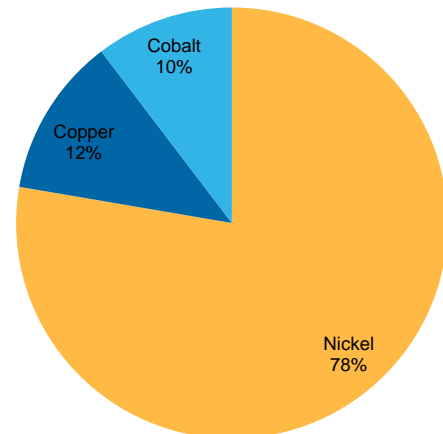
Source: PAN, Macquarie Research, April 2022

Fig 9 Revenue mix – Macquarie forecasts



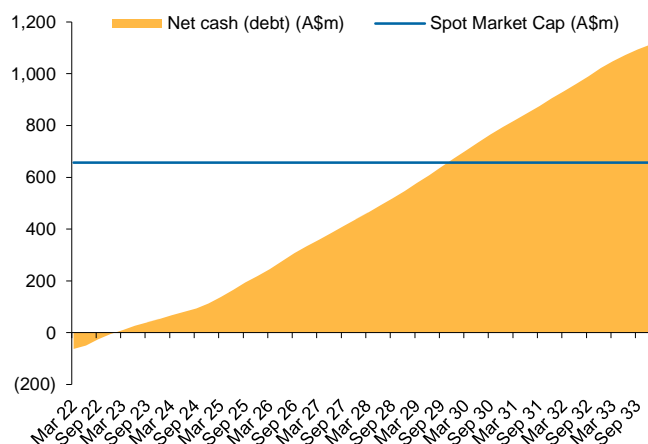
Source: PAN, Macquarie Research, April 2022

Fig 10 Revenue mix – Spot prices



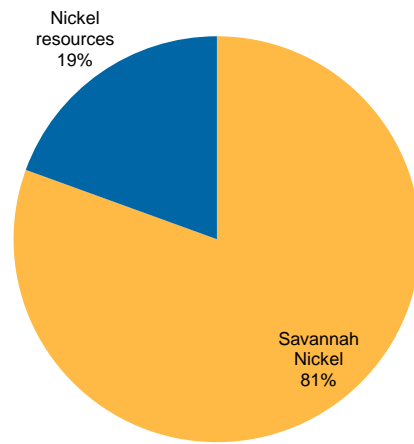
Source: PAN, Macquarie Research, April 2022

Fig 11 PAN cash build vs market cap



Source: PAN, Macquarie Research, April 2022

Fig 12 PAN NPV breakdown



Source: PAN, Macquarie Research, April 2022

Fig 13 PAN summary financials

Panoramic Resources								
ASX: PAN	Price: (A\$ps)	A\$0.32		Year end: Jun		Rating: Outperform	Up/dn	TSR
	Mkt cap: (A\$m)	656		Diluted shares (m)		2,051	Target: A\$0.40	25% 25%

ASSUMPTIONS		FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e
Exchange Rate	A\$/US\$	0.67	0.75	0.73	0.76	0.76	0.74	0.71
Nickel Price	US\$/lb	6.34	7.39	10.80	10.21	9.53	9.98	9.87
Nickel Price	A\$/lb	9.46	9.88	14.76	13.47	12.62	13.44	13.94

RATIO ANALYSIS		FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e
Diluted share capital	m	1,343.1	2,050.9	2,125.8	2,125.8	2,125.8	2,125.8	2,125.8
EPS (diluted and pre sig. items)	A¢	(4.9)	(1.1)	0.7	2.9	1.9	3.5	3.1
P/E	x	nm	nm	nm	10.9x	16.8x	9.2x	10.3x
CFPS	A¢	(2.4)	(0.9)	0.5	4.4	3.4	4.8	6.0
P/CF	x	(13.5x)	(37.2x)	67.7x	7.2x	9.3x	6.6x	5.3x
DPS	A¢	0.0	0.0	0.0	0.0	0.0	0.0	2.0
Dividend yield	%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	6.3%
Franking Level	%	0%	0%	0%	0%	0%	0%	0%
Book value per share	x	0.12	0.08	0.12	0.16	0.18	0.23	0.27
P/Book value	x	2.6x	3.9x	2.6x	2.0x	1.8x	1.4x	1.2x
R.O.E. (pre sig items)	%	(30%)	(13%)	5%	18%	11%	15%	11%
R.O.A. (pre sig items)	%	(21%)	(11%)	4%	13%	8%	12%	13%
Interest Cover	x	(6x)	(1,166x)	nm	13x	10x	19x	28x
EBITDA per share	A\$ps	(0.02)	(0.01)	0.02	0.05	0.04	0.05	0.06
EVEBITDA	x	nm	nm	nm	6.5x	7.6x	4.6x	3.0x
Free cash flow Yield	%	(15%)	(1%)	(5%)	11%	8%	12%	16%

ATTRIBUTABLE MINE OUTPUT		FY20	FY21	FY22e	FY23e	FY24e	FY25e	FY26e
Production forecasts								
Nickel in concentrate	(kt)	3.4	0.0	3.6	8.4	8.5	9.4	9.8
Copper in concentrate	(kt)	2.2	0.0	2.3	4.8	4.9	5.3	5.4
Cobalt in concentrate	(kt)	0.2	0.0	0.3	0.7	0.7	0.7	0.8

Cost forecasts								
C1 cash costs	(A\$/lb)	14.54	nm	8.24	4.67	5.52	4.71	4.17
AISC	(A\$/lb)	17.67	nm	10.54	6.60	7.36	6.39	5.83
AISC	(US\$/lb)	11.85	nm	7.71	5.00	5.56	4.75	4.12

OPERATIONAL OUTLOOK								

EARNINGS								
Sales Revenue	A\$m	69	0	125	259	242	282	308
Other Revenue	A\$m	5	2	0	0	0	0	0
Total Revenue	A\$m	74	2	125	259	242	282	308
Operating Costs	A\$m	(92)	(11)	(85)	(151)	(154)	(160)	(165)
Operational EBITDA	A\$m	(17)	(10)	40	109	88	121	142
Exploration Expense/Write-offs	A\$m	(0)	(1)	(1)	(1)	(1)	(1)	(1)
Corporate & Other Costs	A\$m	(8)	(7)	(7)	(8)	(8)	(9)	(9)
EBITDA	A\$m	(26)	(17)	33	100	78	112	132
D&A	A\$m	(18)	(5)	(15)	(32)	(33)	(34)	(35)
EBIT	A\$m	(43)	(22)	18	68	45	78	98
Net Interest	A\$m	(7)	(0)	(4)	(5)	(5)	(4)	(3)
Profit Before Tax	A\$m	(50)	(22)	14	62	40	74	94
Tax Expense	A\$m	0	0	0	0	0	0	(28)
Minorities	A\$m	1	0	0	0	0	0	0
Adjusted NPAT	A\$m	(50)	(22)	14	62	40	74	66
Significant Items (post tax)	A\$m	(37)	22	1	0	0	0	0
Reported NPAT	A\$m	(87)	0	16	62	40	74	66

SAVANNAH REVENUE MIX								

CASHFLOW								
Net Profit	A\$m	(87)	0	16	62	40	74	66
Interest/Tax/D&A	A\$m	17	5	16	32	33	34	63
Working Capital/other	A\$m	38	(23)	(21)	(0)	(0)	(5)	(1)
Net Operating Cashflow	A\$m	(32)	(18)	10	94	73	103	128
Capex	A\$m	(43)	(12)	(50)	(19)	(19)	(18)	(17)
Investments	A\$m	9	24	5	2	0	0	0
Sale of PPE and Other	A\$m	0	0	0	0	0	0	0
Free cash flow	A\$m	(66)	(6)	(35)	77	54	85	110
Dividends Paid	A\$m	0	0	0	0	0	0	0
Debt	A\$m	(75)	(1)	36	(6)	(5)	(5)	(25)
Equity Issuance	A\$m	143	0	0	5	0	0	0
Other	A\$m	0	0	0	0	0	0	0
Net Financing Cashflow	A\$m	69	(1)	36	(2)	(5)	(5)	(25)
Net change in cash	A\$m	3	(7)	1	75	49	80	86

RESERVES AND RESOURCES (ATTRIBUTABLE)								
Savannah Reserves								
Commodity (kt)								
		Mt	% Ni	Ni (kt)				
Nickel		8.3	1.23%	101.8				
Copper			0.59%	48.5				
Cobalt			0.09%	7.6				
Savannah Resources								
Commodity (kt)								
		Mt	% Ni	Ni (kt)				
Nickel		13.5	1.56%	209.8				
Copper			0.70%	94.2				
Cobalt			0.10%	13.7				

BALANCE SHEET								
Cash	A\$m	31	24	26	101	150	230	316
PP&E & Mine Development	A\$m	138	166	233	218	205	189	171
Exploration	A\$m	13	6	6	7	8	9	9
Total Assets	A\$m	204	202	434	526	560	675	756
Debt	A\$m	7	6	76	70	65	60	35
Total Liabilities	A\$m	38	35	172	181	176	195	177
Total Net Assets / Equity	A\$m	166	167	262	345	385	479	579
Net Debt / (Cash)	A\$m	(24)	(18)	50	(31)	(85)	(170)	(280)
Gearing (net debt/(nd + equity))	%	(17%)	(12%)	16%	(10%)	(28%)	(55%)	(94%)
Gearing (net debt/equity)	%	(14%)	(11%)	19%	(9%)	(22%)	(35%)	(48%)

EQUITY DCF VALUATION				
Projects	Spot Prices		Macquarie Forecasts	
	A\$m	A\$ps	A\$m	A\$ps
Savannah Nickel	1,673	0.79	721	0.34
Nickel resources	264	0.12	164	0.08
Investments	1	0.00	1	0.00
New Equity	5	0.00	5	0.00
Forwards	0	0.00	0	0.00
Corporate	(43)	(0.02)	(43)	(0.02)
Net cash (debt)	48	0.02	(6)	(0.00)
Net Equity Value (@ 10.4% (nom) WACC)	1,947	0.92	842	0.40
Price Target (1.0x NPV)				0.40

Source: PAN, Macquarie Research, April 2022

Important disclosures:

Recommendation definitions	Volatility index definition*	Financial definitions
<p>Macquarie – Asia and USA Outperform – expected return >10% Neutral – expected return from -10% to +10% Underperform – expected return <-10%</p> <p>Macquarie – Australia/New Zealand Outperform – expected return >10% Neutral – expected return from 0% to 10% Underperform – expected return <0%</p> <p>Note: expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p>	<p>This is calculated from the volatility of historical price movements.</p> <p>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.</p> <p>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.</p> <p>Medium – stock should be expected to move up or down at least 30–40% in a year.</p> <p>Low–medium – stock should be expected to move up or down at least 25–30% in a year.</p> <p>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</p> <p>Recommendations – 12 months Note: Quant recommendations may differ from Fundamental Analyst recommendations</p>	<p>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</p> <p>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</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p>

Recommendation proportions – For quarter ending 31 Mar 2022

	AU/NZ	Asia	USA	
Outperform	63.27%	69.10%	79.79%	(for global coverage by Macquarie, 6.23% of stocks followed are investment banking clients)
Neutral	30.61%	20.65%	18.09%	(for global coverage by Macquarie, 3.33% of stocks followed are investment banking clients)
Underperform	6.12%	10.25%	2.13%	(for global coverage by Macquarie, 1.16% 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, April 2022

12-month target price methodology

PAN AU: A\$0.40 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 (BVG code)	Recommendation	Target Price
11-Mar-2022	PAN AU	Outperform	A\$.40
03-Mar-2022	PAN AU	Outperform	A\$.32
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

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