

30 April 2018

Pantoro Limited (PNR)

BUY

Share Price: A\$0.34

MQ18 Results – Inventory Adjustments Hit AISCs

Target Price:

A\$0.35

Preliminary MQ'18 production result of 13.4koz, has been followed up by the full release. Significant new news was; a) AISC of A\$1,183/oz up 20% Qoq and 8% above our estimates as non-cash inventory adjustments were released for the first time and; b) underground production tonnages have increased, up 29% Qoq giving us improved confidence in the ramp up to 80-100kozpa, despite contained metal mined remaining flat Qoq. We expect the Wagtail underground to commence imminently, and forecast a run rate of 80kozpa to be achieved by Q1'CY19. Pantoro is BUY rated with a target price of A\$0.35/sh.

Cash Costs and Inventory Adjustments

- Inventory adjustments were disclosed for the first time at A\$177/oz in MQ18 and were the standout item as stockpiles began to be drawn down. Whilst expected, the magnitude of the charge (A\$2.4m) was surprising given the stockpile of ~82kt was valued at A\$4.2m on 31-Dec-17.
- Subsequent to the period end, the remaining gold loan of A\$0.9m was repaid leaving the company debt free. Going forward, this will increase FCF by A\$2.6m per month.

Underground Ramp Up

- The improvements to underground production rates, up 29% Qoq to 56kt, were positive, although the grade fell to 6.7g/t, the second lowest on record, with contained metal mined flat Qoq.
- It will be important to understand if the higher mining rates lead to greater dilution and if so, whether this will be offset by the introduction of the ore sorter.
- Our steady state production rate of 94kozpa is predicated upon 400ktpa from 2 underground operations, Nicolsons and Wagtail, at a grade of 8g/t and recoveries of 91%. The ramp-up over CY18 will be critical to determining the likelihood of achieving these assumptions.

Commissioning of Plant

- The ore sorter and additional tertiary crusher are currently being installed and due to be operational later this month. This will allow the plant to operate at a ~400ktpa feed rate.
- Preparatory work to begin underground development at the Wagtail open pit is complete. Portal construction will commence as soon as regulatory approvals are received, which is expected imminently.

Price Target (A\$0.35/sh) 1xP/NPV

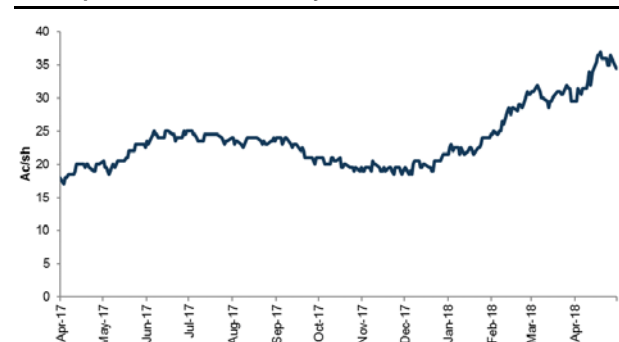
Company Data

Shares – ordinary (M)	787
Market capitalisation (\$M)	268
12 month low/high (\$)	0.18 / 0.38
Average monthly turnover (\$M)	16.0
GICS Industry	Materials

Financial Summary (fully diluted/normalised)

Year End June	2017A	2018F	2019F	2020F	2021F
Revenue (\$M)	64	92	146	159	156
Costs (\$M)	41	54	69	79	78
EBITDA (\$M)	23	37	77	81	78
NPAT (\$M)	6	17	42	47	47
EPS (¢ps)	1	2	5	6	6
EPS growth (%)	-205%	212%	144%	11%	0%
PER (x)	50	16	7	6	6
Free Cashflow (\$M)	20	26	60	63	62
FCFPS (¢ps)	2	3	7	8	8
PFCFPS (x)	14	11	5	4	4
Enterprise Value (\$M)	257	252	207	158	112
EV / EBITDA (x)	11	7	3	2	1
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0%	0%	0%	0%	0%
Franking (%)	0.00	0.00	0.00	0.00	0.00

PNR – performance over one year



Disclosure and Disclaimer

This report must be read with the disclosure and disclaimer on the final page of this document.

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Analysis

Pantoro Limited (PNR)

30-Apr-18

Share Price	(\$)	A\$0.34
SOI	(M)	787.0
Issued shares	(M)	24.9
Fully Diluted	(M)	812
Mkt Cap.	(\$M)	A\$268M

Year End June

PROFIT & LOSS	2017A	2018F	2019F	2020F	2021F
Revenue	A\$M 63.9	91.8	146.2	159.2	156.0
Operating Costs	A\$M 38.7	52.1	67.5	76.6	76.5
Exploration	A\$M 0.0	0.3	0.6	0.6	0.6
Other	A\$M 2.7	2.1	1.3	1.3	1.3
EBITDA	A\$M 22.6	37.4	76.8	80.6	77.7
Depreciation & Amort.	A\$M 17.0	16.8	17.2	16.0	14.1
EBIT	A\$M 5.6	20.6	59.6	64.7	63.5
Net Interest	A\$M 0.0	(0.2)	(0.7)	(2.2)	(3.6)
Pre-Tax Profit	A\$M 5.5	20.7	60.4	66.9	67.1
Tax	A\$M 0.0	3.4	18.1	20.1	20.1
Net Profit	A\$M 5.5	17.3	42.3	46.8	47.0
Abnormal	A\$M 21.3	0.0	0.0	0.0	0.0
Reported Profit	A\$M 26.8	17.3	42.3	46.8	47.0
Dividends Paid	A\$M 0.0	0.0	0.0	0.0	0.0
Adjustments	A\$M 0.0	0.0	0.0	0.0	0.0

CASHFLOW

Net Op Cash Flow	A\$M 19.5	28.7	77.4	81.2	78.3
Net Interest	A\$M 0.0	0.2	0.7	2.2	3.6
Tax Paid	A\$M 0.0	(3.4)	(18.1)	(20.1)	(20.1)
Operating Cash Flow	A\$M 19.5	25.5	60.0	63.4	61.7

Net Capex	A\$M (20.6)	(18.4)	(11.3)	(12.0)	(12.0)
Exploration	A\$M (1.4)	(3.6)	(3.0)	(3.0)	(3.0)
Investing Cash Flow	A\$M (21.9)	(22.0)	(14.3)	(15.0)	(15.0)
Free cash flow	A\$M (2.4)	3.5	45.7	48.4	46.7

Net Borrowings	A\$M 3.2	0.0	0.0	0.0	0.0
Dividends	A\$M 0.0	0.0	0.0	0.0	0.0
Equity Issues	A\$M 4.0	1.3	0.0	0.0	0.0
Other	A\$M (0.0)	0.0	0.0	0.0	0.0
Financing Cash Flow	A\$M 7.2	1.3	0.0	0.0	0.0

Net IncreaseCash	A\$M 4.7	4.8	45.7	48.4	46.7
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BALANCE SHEET

Cash	A\$M 9.7	14.5	60.2	108.5	155.3
Other Current	A\$M 6.5	8.0	8.0	8.0	8.0
Current Assets	A\$M 16.1	22.5	68.1	116.5	163.2
Fixed Assets	A\$M 32.1	40.1	51.4	63.4	75.4
Exploration	A\$M 2.3	5.6	8.0	10.4	12.8
Other	A\$M 0.0	0.0	0.0	0.0	0.0
Non Current Assets	A\$M 34.4	45.7	59.4	73.8	88.2
Total Assets	A\$M 50.5	68.1	127.5	190.3	251.4
Borrowings	A\$M 0.0	0.0	0.0	0.0	0.0
Payables	A\$M 11.2	10.4	10.4	10.4	10.4
Other	A\$M 8.1	1.4	1.4	1.4	1.4
Current Liab	A\$M 19.3	11.7	11.7	11.7	11.7
Borrowings	A\$M 0.0	0.0	0.0	0.0	0.0
Provisions	A\$M 2.0	2.1	2.1	2.1	2.1
Other	A\$M 0.0	0.0	0.0	0.0	0.0
Non Current Liab	A\$M 2.0	2.1	2.1	2.1	2.1
Total Liabilities	A\$M 21.3	13.8	13.8	13.8	13.8
Total Equity	A\$M 29.3	54.3	113.7	176.5	237.6

RATIO ANALYSIS

	A\$	A\$	A\$	A\$	A\$
EPS	¢ 0.7	2.1	5.2	5.8	5.8
PER	x 49.8	15.9	6.5	5.9	5.9
EPS Growth	% -205%	212%	144%	11%	0%
CFPS	¢ 2.4	3.1	7.4	7.8	7.6
PCFR	x 14.1	10.8	4.6	4.4	4.5
DPS	¢ 0.0	0.0	0.0	0.0	0.0
Yield	% 0%	0%	0%	0%	0%
Payout Ratio	% 0%	0%	0%	0%	0%
Gearing ND/E	% -33%	-27%	-53%	-62%	-65%
Interest Cover	x 177.8	na	na	na	na
EBITDA Margin	% 35.3	40.7	52.5	50.7	49.8
EBIT Margin	% 8.7	22.4	40.8	40.6	40.7
Return On Assets	% 11.0	30.2	46.8	34.0	25.3
Eff Tax rate	% 30	30	30	30	30

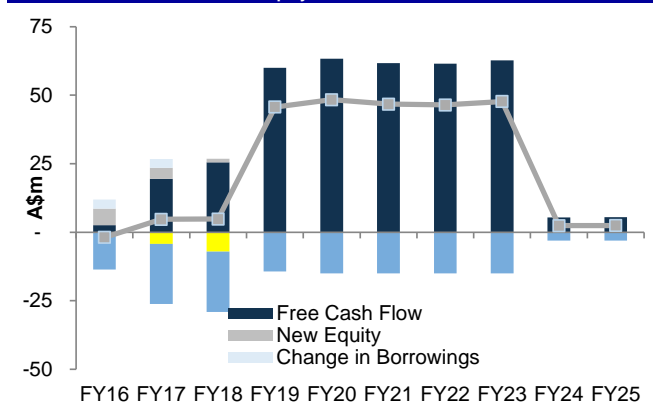
	2017A	2018F	2019F	2020F	2021F
Halls Creek Project (May-17)					
Tonnes	Kt	1,600		773	
Gold grade	g/t	7.4		7.4	
Contained gold	koz	377		182	

	2017A	2018F	2019F	2020F	2021F
Nicolsons - Underground (May-17)					
Tonnes	Kt	1053		580	
Gold grade	g/t	9.3		7.7	
Contained gold	koz	315		143	

Nicolsons

Production		2017A	2018F	2019F	2020F	2021F
Ore milled	Mt	167	243	390	400	400
Grade - gold	g/t	7.6	7.6	7.4	8.0	8.00
Recovery Gold	%	96%	92%	91%	91%	91%
Gold output	oz	39,149	54,622	84,553	93,623	93,623
C1 Costs	A\$/oz	913	887	707	728	728
AISC	A\$/oz	1,147	1,074	935	949	948

Cash Flow Forecasts Incl Debt & Equity



REVENUE		2017A	2018F	2019F	2020F	2021F
Nicolsons	A\$M	65	92	146	159	156
Total	A\$M	65	92	146	159	156

COSTS		2017A	2018F	2019F	2020F	2021F
Nicolsons	A\$M	37	53	67	77	76
Corporate	A\$M	2	1	1	1	1
Total	A\$M	39	54	69	78	78

CAPEX		2017A	2018F	2019F	2020F	2021F
SIBC	A\$M	7.2	6.9	11.3	12.0	12.0
Project	A\$M	13.3	9.6	0.0	0.0	0.0
Total	A\$M	20.5	16.5	11.3	12.0	12.0

ASSUMPTIONS

Exchange Rate	A\$/US\$	0.77	0.77	0.75	0.75	0.75
Gold price	US\$/oz	1,258	1,320	1,300	1,250	1,250
Gold price	A\$/oz	1,641	1,716	1,733	1,667	1,667

NPV (+1Yr)

	A\$M	A\$/sh.
Halls Creek Project	176	\$ 0.22
Exploration	50	\$ 0.06
Corporate costs	-5	\$ (0.01)
Net Cash (Debt)	60	\$ 0.07
Total	281	\$ 0.35

Source: Petra Capital

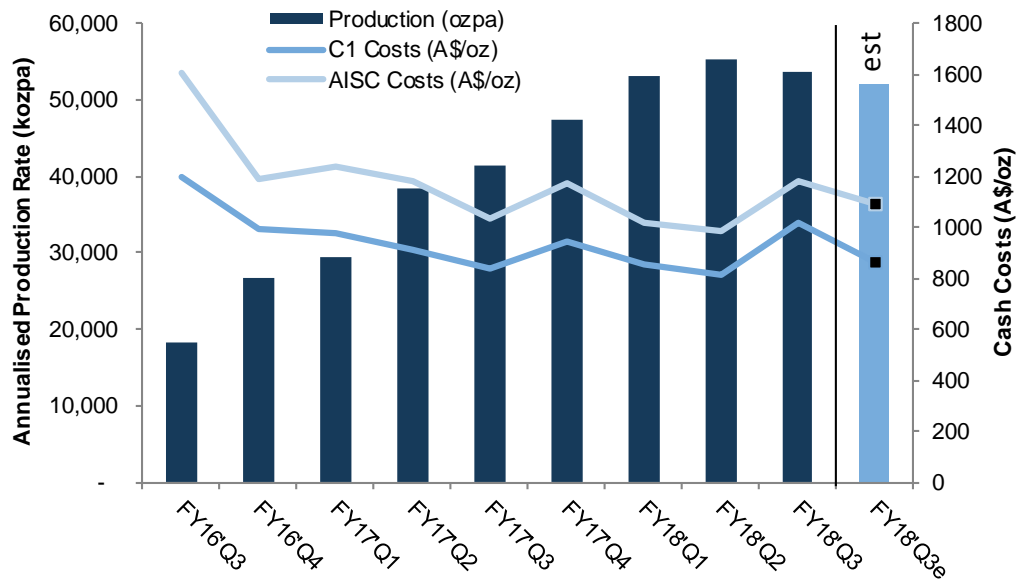
Quarterly Results

Figure 1: Quarterly Production Results

	FY18'Q2	FY18'Q3	FY18'Q3e	Est%	Qoq%
UG Ore Mined (kt)	41.8	54.1	50.0	8%	29%
UG Ore Grade (g/t)	8.8	6.7	8.0	-17%	-24%
Contained Metal (oz)	11,786	11,586	12,860	-10%	-2%
Ore Processed (kt)	60.4	56.7	60.0	-5%	-6%
Head Grade (g/t)	7.7	8.0	7.2	10%	4%
Recoveries (%)	93%	92%	93%	-1%	-1%
Gold Produced (oz)	13,847	13,385	12,977	3%	-3%
Annualised Pro (ozpa)	55,387	53,540	51,907	3%	-3%
C1 Cash Costs	809	1,014	859	0	25%
AISC	988	1,182	1,091	8%	20%

Source: Company Reports, Petra Capital

Figure 2: Annualised Production by Quarter



Source: Company Reports, Petra Capital

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