

16 April 2018

## Pantoro Limited (PNR)

**BUY**

**Share Price: A\$0.34**

### Operational Consistency in MQ'18 Results

**Target Price:**

**A\$0.36**

Preliminary production results for Pantoro are broadly in-line with our estimates. Production of 13.4koz was above our forecast (13.0koz) as the head grade of 8g/t outperformed our expectations (7.2g/t). Cash of A\$12.9m at 31-Mar was up A\$0.3m QoQ, subsequent to period end, the remaining gold loan was repaid (A\$0.9m), leaving the company debt free. Pantoro continues to rapidly progress the second underground with development expected this month, followed by an updated resource/reserve later in the quarter as the company rapidly progresses its strategy to lift production from 50kozpa to 80-100kozpa. We retain our BUY rating and A\$0.36/sh target price.

#### Production

- Pantoro continues to demonstrate operational reliability as gold production stayed broadly flat QoQ, at an annualised rate of 53.5koz. Processing rates fell 6% QoQ, but were offset by higher grades (Figure 1 & Figure 2).
- The full production results due later this month will disclose cash costs, and the proportion of mill feed derived from underground, versus surface stockpiles. It could be that a higher proportion of underground feed contributed to the higher head grade, which would be a great achievement for the company.

#### Debt Free

- On 31-Mar Pantoro had cash of A\$12.9m, up A\$0.3m QoQ. We had forecast A\$2.4m of FCF, which may have been reduced by greater exploration or capital for the Wagtail underground.
- Subsequent to the period end, the remaining gold loan of A\$0.9m was repaid leaving the company debt free. Going forwards this will increase FCF by A\$2.6m per month.

#### Expansion

- 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 Wagrail open pit is complete. Portal construction will commence as soon as regulatory approvals are received, which is expected imminently.

**Price Target (A\$0.36/sh) 1xP/NPV**

#### Company Data

Shares – ordinary (M)	785
Market capitalisation (\$M)	267
12 month low/high (\$)	0.17 / 0.35
Average monthly turnover (\$M)	11.7
GICS Industry	Materials

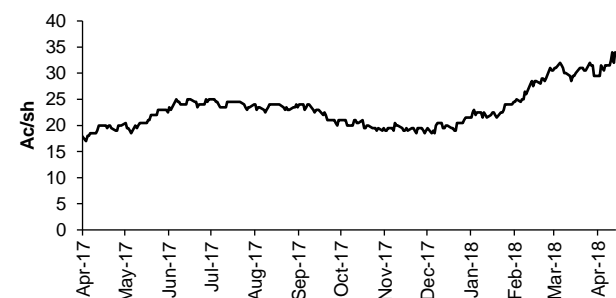
#### Financial Summary (fully diluted/normalised)

Year end June	2017A	2018F	2019F	2020F	2021F
Revenue (\$M)	64	91	144	158	156
Costs (\$M)	41	52	69	78	78
EBITDA (\$M)	23	39	75	79	78
NPAT (\$M)	6	18	41	46	47
EPS (¢ps)	1	2	5	6	6
EPS growth (%)	-205%	231%	123%	12%	3%
PER (x)	45	14	6	5	5
Free Cashflow (\$M)	20	26	59	62	62
FCFPS (¢ps)	2	3	7	8	8
PFCFPS (x)	13	9	4	4	4
Enterprise Value (\$M)	234	228	184	136	90
EV / EBITDA (x)	10	6	2	2	1
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0

#### Board

Director	Position	Executive
Michael Jefferies	Chairman	Non-Executive
Paul Cmrlc	Managing Director	Executive
Scott Huffadine	Operations Director	Executive
Kyle Edwards	Director	Non-Executive

#### PNR – performance over one year



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## Analysis

### Pantoro Limited (PNR)

13-Apr-18

Share Price	(\$)	A\$0.34
SOI	(M)	785.1
Issued shares	(M)	24.9
Fully Diluted	(M)	810
Mkt Cap.	(\$M)	A\$267M

Year End June

		2017A	2018F	2019F	2020F	2021F
<b>PROFIT &amp; LOSS</b>						
Revenue	A\$M	63.9	90.7	144.2	157.6	156.0
Operating Costs	A\$M	38.7	49.6	67.4	76.5	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
<b>EBITDA</b>	<b>A\$M</b>	<b>22.6</b>	<b>38.7</b>	<b>74.9</b>	<b>79.2</b>	<b>77.7</b>
Depreciation & Amort.	A\$M	17.0	16.7	17.3	16.1	14.2
<b>EBIT</b>	<b>A\$M</b>	<b>5.6</b>	<b>22.0</b>	<b>57.6</b>	<b>63.1</b>	<b>63.5</b>
Net Interest	A\$M	0.0	(0.2)	(0.8)	(2.1)	(3.6)
<b>Pre-Tax Profit</b>	<b>A\$M</b>	<b>5.5</b>	<b>22.2</b>	<b>58.3</b>	<b>65.2</b>	<b>67.0</b>
Tax	A\$M	0.0	3.9	17.5	19.6	20.1
<b>Net Profit</b>	<b>A\$M</b>	<b>5.5</b>	<b>18.3</b>	<b>40.8</b>	<b>45.7</b>	<b>46.9</b>
Abnormal	A\$M	21.3	0.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>A\$M</b>	<b>26.8</b>	<b>18.3</b>	<b>40.8</b>	<b>45.7</b>	<b>46.9</b>
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	30.1	75.5	79.8	78.3
Net Interest	A\$M	0.0	0.2	0.8	2.1	3.6
Tax Paid	A\$M	0.0	(3.9)	(17.5)	(19.6)	(20.1)
<b>Operating Cash Flow</b>	<b>A\$M</b>	<b>19.5</b>	<b>26.4</b>	<b>58.7</b>	<b>62.3</b>	<b>61.7</b>

Net Capex	A\$M	(20.6)	(18.4)	(11.6)	(12.0)	(12.0)
Exploration	A\$M	(1.4)	(3.6)	(3.0)	(3.0)	(3.0)
<b>Investing Cash Flow</b>	<b>A\$M</b>	<b>(21.9)</b>	<b>(22.0)</b>	<b>(14.6)</b>	<b>(15.0)</b>	<b>(15.0)</b>
<i>Free cash flow</i>	<i>A\$M</i>	<i>(2.4)</i>	<i>4.4</i>	<i>44.1</i>	<i>47.3</i>	<i>46.7</i>

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
<b>Financing Cash Flow</b>	<b>A\$M</b>	<b>7.2</b>	<b>1.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net IncreaseCash</b>	<b>A\$M</b>	<b>4.7</b>	<b>5.7</b>	<b>44.1</b>	<b>47.3</b>	<b>46.7</b>

#### BALANCE SHEET

Cash	A\$M	9.7	15.4	59.5	106.9	153.6
Other Current	A\$M	6.5	8.0	8.0	8.0	8.0
<b>Current Assets</b>	<b>A\$M</b>	<b>16.1</b>	<b>23.4</b>	<b>67.5</b>	<b>114.8</b>	<b>161.5</b>
Fixed Assets	A\$M	32.1	40.1	51.7	63.7	75.7
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
<b>Non Current Assets</b>	<b>A\$M</b>	<b>34.4</b>	<b>45.7</b>	<b>59.7</b>	<b>74.1</b>	<b>88.5</b>
<b>Total Assets</b>	<b>A\$M</b>	<b>50.5</b>	<b>69.1</b>	<b>127.2</b>	<b>188.9</b>	<b>250.0</b>
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
<b>Current Liab</b>	<b>A\$M</b>	<b>19.3</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>	<b>11.7</b>
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
<b>Total Liabilities</b>	<b>A\$M</b>	<b>21.3</b>	<b>13.8</b>	<b>13.8</b>	<b>13.8</b>	<b>13.8</b>
<b>Total Equity</b>	<b>A\$M</b>	<b>29.3</b>	<b>55.3</b>	<b>113.4</b>	<b>175.1</b>	<b>236.2</b>

#### RATIO ANALYSIS

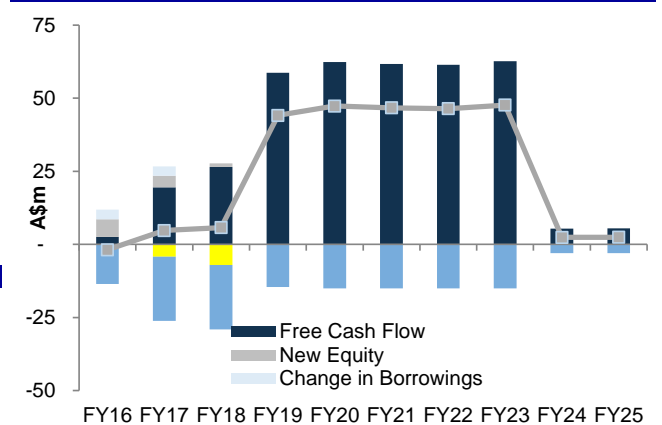
		A\$	A\$	A\$	A\$	A\$
EPS	¢	0.7	2.3	5.0	5.6	5.8
PER	x	49.7	15.0	6.7	6.0	5.9
EPS Growth	%	-205%	231%	123%	12%	3%
CFPS	¢	2.4	3.3	7.3	7.7	7.6
PCFR	x	14.1	10.4	4.7	4.4	4.5
DPS	¢	0.0	0.0	0.0	0.0	0.0
Yield	%	0%	0%	0%	0%	0%
Payout Ratio	%	0%	0%	0%	0%	0%
Gearing ND/E	%	-33%	-28%	-53%	-61%	-65%
Interest Cover	x	177.8	na	na	na	na
EBITDA Margin	%	35.3	42.7	51.9	50.2	49.8
EBIT Margin	%	8.7	24.3	39.9	40.0	40.7
Return On Assets	%	11.0	31.9	45.3	33.4	25.4
Eff Tax rate	%	30	30	30	30	30

		2017A	2018F	2019F	2020F	2021F
<b>Halls Creek Project (May-17)</b>						
Tonnes	Kt	1,600		773		
Gold grade	g/t	7.4		7.4		
Contained gold	koz	377		182		
<b>Nicolsons - Underground (May-17)</b>						
Tonnes	Kt	1,053		580		
Gold grade	g/t	9.3		7.7		
Contained gold	koz	315		143		

#### Nicolsons

		2017A	2018F	2019F	2020F	2021F
<b>Production</b>						
Ore milled	Mt	167	247	390	400	400
Grade - gold	g/t	7.6	7.4	7.4	8.0	8.00
Recovery Gold	%	96%	92%	91%	91%	91%
Gold output	oz	39,149	54,213	84,553	93,623	93,623
<b>C1 Costs</b>						
AISC	A\$/oz	1,147	1,057	937	949	948

#### Cash Flow Forecasts Incl Debt & Equity



#### REVENUE

Nicolsons	A\$M	65	90	144	158	156
<b>Total</b>	<b>A\$M</b>	<b>65</b>	<b>90</b>	<b>144</b>	<b>158</b>	<b>156</b>

#### COSTS

Nicolsons	A\$M	37	50	67	77	76
Corporate	A\$M	2	1	1	1	1
<b>Total</b>	<b>A\$M</b>	<b>39</b>	<b>51</b>	<b>69</b>	<b>78</b>	<b>78</b>

#### CAPEX

SIBC	A\$M	7.2	7.4	11.6	12.0	12.0
Project	A\$M	13.3	9.2	0.0	0.0	0.0
<b>Total</b>	<b>A\$M</b>	<b>20.5</b>	<b>16.5</b>	<b>11.6</b>	<b>12.0</b>	<b>12.0</b>

#### ASSUMPTIONS

Exchange Rate	A\$/US\$	0.77	0.77	0.75	0.75	0.75
Gold price	US\$/oz	1,258	1,310	1,275	1,250	1,250
Gold price	A\$/oz	1,641	1,701	1,700	1,667	1,667

#### NPV (+1Yr)

	A\$M	A\$/sh.
Halls Creek Project	183	\$ 0.23
Exploration	50	\$ 0.06
Corporate costs	-5	\$ (0.01)
Net Cash (Debt)	60	\$ 0.07
<b>Total</b>	<b>288</b>	<b>\$ 0.36</b>

Source: Petra Capital

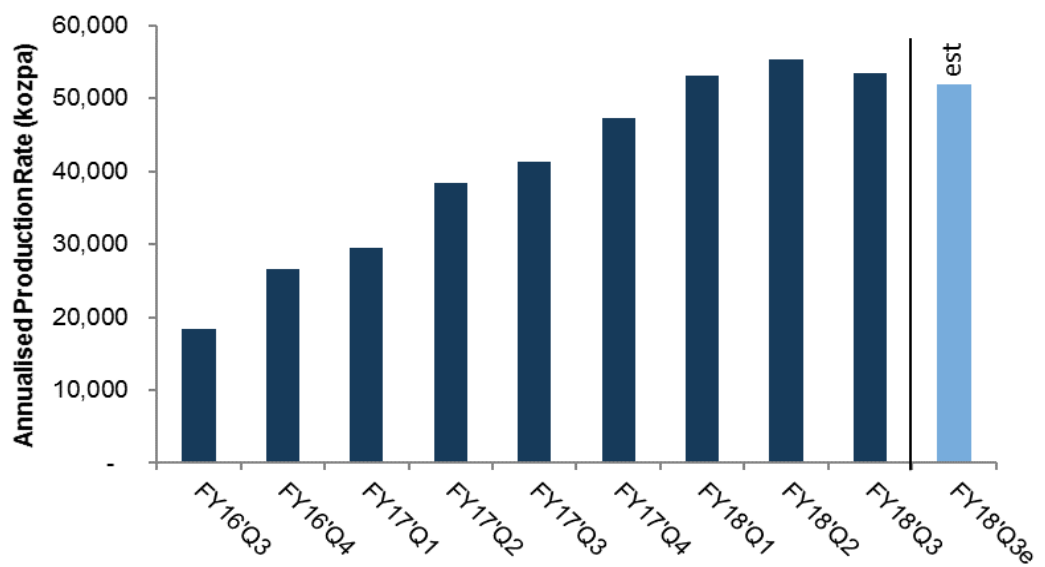
## Quarterly Results

**Figure 1: Quarterly Production Results**

	FY18'Q1	FY18'Q2	FY18'Q3	FY18'Q3e	Est%	Qoq%
Ore Processed (kt)	58.7	60.4	56.7	60.0	-5%	-6%
Head Grade (g/t)	7.6	7.7	8.0	7.2	10%	4%
Recoveries (%)	93%	93%	92%	93%	-1%	-1%
Gold Produced (oz)	13,273	13,847	13,385	12,977	3%	-3%
Annualised Prod (ozpa)	53,090	55,387	53,540	51,907	3%	-3%

Source: Company Reports, Petra Capital

**Figure 2: Annualised Production by Quarter**



Source: Company Reports, Petra Capital

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