

10 January 2019

## Pantoro Limited (PNR)

**HOLD**

**Share Price: A\$0.22**

**DQ'18 Preliminary Results Beat Expectations**

**Target Price:**

**A\$0.25**

Preliminary DQ'18 operational production results from Pantoro are strong, but underlying cash generation remains weak. Production of 12.6koz (Petra 10.2koz), up 33% QoQ, demonstrated a sharp recovery from the operational difficulties suffered during CY'18. We had not expected this pace of recovery until MQ'19 and therefore increase our production forecasts throughout CY'19. Cash generation remains weak with cash rising only A\$1m during the quarter despite AISC expected to have been A\$1,120-1,160/oz. We look to the full release to understand the full breakdown, but we expect exploration and project capital to account for some of the discrepancy. We retain our HOLD recommendation with an updated target price of A\$0.25/sh (A\$0.24/sh prior).

### Production results

- 12.6koz is 24% above our expectation of 10.2koz and up 33% QoQ.
- AISC are expected by the company to be A\$1,120-1,160/oz which is significantly below our estimate of A\$1,781/oz.
- The project is now operating at an annualised rate of 50.6kozpa, a rate we weren't expecting until MQ'19. We now expect the operation to reach 80kozpa in SQ'19 vs DQ'19 prior.

### Cash rises, but modestly

- Cash of A\$18.3m was up from A\$17.3m QoQ, versus our estimate of A\$20.2m. Given AISC cash costs of ~A\$1,240/oz and an average gold price of A\$1,714/oz, operating cash flow should have been ~A\$7.3m.
- Pantoro had previously flagged exploration activities at Grants Creek of A\$3m, Mary River/Nicolsons of A\$3m and Development Activities related to the expansion of A\$4m throughout late CY'18 and CY'19. So we believe some of this discrepancy relates to these exploration and project capital items.

### Exploration Results

- Drilling at Nicolsons continues to define mineralisation down plunge. This continues to give us confidence in extensions to mine life beyond the reserve.
- Results from satellite tenements continue to be positive, with the Perserverance prospect at Grants Creek demonstrating strong open pit potential.

### Price target A\$0.25/sh (1xNPV)

- Our valuation assumes a 4.5yr mine life from a 416koz mining inventory as of 31-Dec-18. We now assume a ramp up to >80kozpa takes until DQ'CY19.

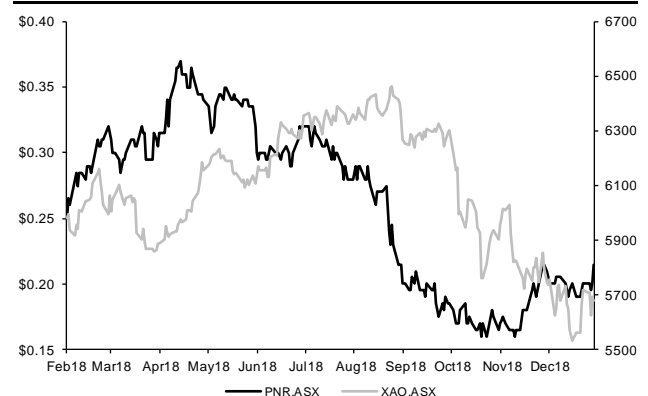
### Company Data

Shares – ordinary (M)	858.7
Market capitalisation (\$M)	190
12 month low/high (\$)	0.16/ 0.38
Average monthly turnover (\$M)	4.2
GICS Industry	Metals & Mining

### Financial Summary (fully diluted/normalised)

Year End June	2017A	2018A	2019F	2020F	2021F
Revenue (\$M)	64	88	93	164	163
Costs (\$M)	41	54	66	81	81
EBITDA (\$M)	23	34	27	83	82
NPAT (\$M)	6	15	9	44	47
EPS (¢ps)	1	2	1	5	5
EPS growth (%)	-205%	165%	-39%	na	6%
PER (x)	34	13	21	4	4
Op. Cashflow (\$M)	20	32	25	67	66
OCFPS (¢ps)	2	4	3	7	7
POCFPS (x)	10	6	7	3	3
Enterprise Value (\$M)	172	170	155	108	62
EV / EBITDA (x)	8	5	6	1	1
Payout ratio (%)	0%	0%	0%	0%	0%
Dividends (¢ps)	0	0	0	0	0
Yield (%)	0%	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%	0%

### PNR – performance over one year



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## Analysis

### Pantoro Limited (PNR)

9-Jan-19

Share Price	(\$)	A\$0.22
SOI	(M)	864.9
Issued shares	(M)	24.9
Fully Diluted	(M)	890
Mkt Cap.	(\$M)	A\$190M

#### Year End June

PROFIT & LOSS	2017A	2018A	2019F	2020F	2021F
Revenue	A\$M 63.9	87.5	93.0	163.7	162.5
Operating Costs	A\$M 38.7	50.9	63.1	77.8	77.9
Exploration	A\$M 0.0	0.0	1.5	1.6	1.6
Other	A\$M 2.7	2.6	1.3	1.3	1.3
<b>EBITDA</b>	<b>A\$M 22.6</b>	<b>34.0</b>	<b>27.0</b>	<b>83.0</b>	<b>81.7</b>
Depreciation & Amort.	A\$M 17.0	19.4	14.5	20.9	17.0
<b>EBIT</b>	<b>A\$M 5.6</b>	<b>14.6</b>	<b>12.5</b>	<b>62.1</b>	<b>64.7</b>
Net Interest	A\$M 0.0	0.0	(0.4)	(1.1)	(2.5)
<b>Pre-Tax Profit</b>	<b>A\$M 5.5</b>	<b>14.5</b>	<b>12.9</b>	<b>63.2</b>	<b>67.2</b>
Tax	A\$M 0.0	(0.2)	3.9	19.0	20.2
<b>Net Profit</b>	<b>A\$M 5.5</b>	<b>14.7</b>	<b>9.0</b>	<b>44.2</b>	<b>47.0</b>
Abnormal	A\$M 21.3	1.0	0.0	0.0	0.0
<b>Reported Profit</b>	<b>A\$M 26.8</b>	<b>15.7</b>	<b>9.0</b>	<b>44.2</b>	<b>47.0</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	31.6	28.5	84.6	83.3
Net Interest	A\$M 0.0	0.0	0.4	1.1	2.5
Tax Paid	A\$M 0.0	0.0	(3.9)	(19.0)	(20.2)
<b>Operating Cash Flow</b>	<b>A\$M 19.5</b>	<b>31.6</b>	<b>25.0</b>	<b>66.7</b>	<b>65.6</b>
Net Capex	A\$M (20.6)	(26.2)	(16.5)	(12.0)	(12.0)
Exploration	A\$M (1.4)	(4.2)	(7.7)	(8.0)	(8.0)
<b>Investing Cash Flow</b>	<b>A\$M (21.9)</b>	<b>(30.5)</b>	<b>(24.1)</b>	<b>(20.0)</b>	<b>(20.0)</b>
Free cash flow	A\$M (2.4)	1.1	0.9	46.7	45.6
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	1.6	15.0	0.0	0.0
Other	A\$M (0.0)	(0.7)	0.0	0.0	0.0
<b>Financing Cash Flow</b>	<b>A\$M 7.2</b>	<b>0.9</b>	<b>15.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Net IncreaseCash</b>	<b>A\$M 4.7</b>	<b>2.1</b>	<b>15.9</b>	<b>46.7</b>	<b>45.6</b>

#### BALANCE SHEET

Cash	A\$M 9.7	11.8	27.7	74.4	120.0
Other Current	A\$M 6.5	6.2	6.2	6.2	6.2
<b>Current Assets</b>	<b>A\$M 16.1</b>	<b>18.0</b>	<b>33.9</b>	<b>80.6</b>	<b>126.3</b>
Fixed Assets	A\$M 32.1	43.2	45.2	36.3	31.3
Exploration	A\$M 2.3	2.2	8.3	14.7	21.1
Other	A\$M 0.0	0.0	0.0	0.0	0.0
<b>Non Current Assets</b>	<b>A\$M 34.4</b>	<b>45.3</b>	<b>53.5</b>	<b>51.0</b>	<b>52.4</b>
<b>Total Assets</b>	<b>A\$M 50.5</b>	<b>63.3</b>	<b>87.4</b>	<b>131.6</b>	<b>178.7</b>
Borrowings	A\$M 0.0	0.6	0.6	0.6	0.6
Payables	A\$M 11.2	13.5	13.5	13.5	13.5
Other	A\$M 8.1	1.1	1.1	1.1	1.1
<b>Current Liab</b>	<b>A\$M 19.3</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>	<b>15.2</b>
Borrowings	A\$M 0.0	0.0	0.0	0.0	0.0
Provisions	A\$M 2.0	2.7	2.7	2.7	2.7
Other	A\$M 0.0	0.0	0.0	0.0	0.0
Non Current Liab	A\$M 2.0	2.7	2.7	2.7	2.7
<b>Total Liabilities</b>	<b>A\$M 21.3</b>	<b>17.9</b>	<b>17.9</b>	<b>17.9</b>	<b>17.9</b>
<b>Total Equity</b>	<b>A\$M 29.3</b>	<b>45.4</b>	<b>69.4</b>	<b>113.7</b>	<b>160.7</b>

#### RATIO ANALYSIS

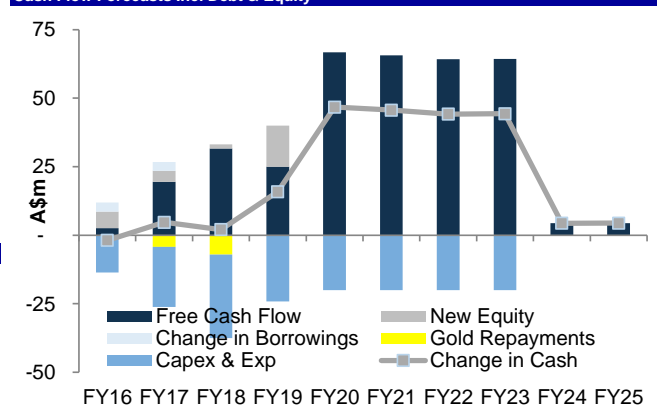
	A\$	A\$	A\$	A\$	A\$
EPS	¢ 0.6	1.7	1.0	5.0	5.3
PER	x 35.3	13.3	21.7	4.4	4.2
EPS Growth	% -205%	165%	-39%	na	6%
CFPS	¢ 2.2	3.6	2.8	7.5	7.4
PCFR	x 10.0	6.2	7.8	2.9	3.0
DPS	¢ 0.0	0.0	0.0	0.0	0.0
Yield	% 0%	0%	0%	0%	0%
Payout Ratio	% 0%	0%	0%	0%	0%
Gearing ND/E	% -33%	-25%	-39%	-65%	-74%
Interest Cover	x 177.8	481.2	na	na	na
EBITDA Margin	% 35.3	38.8	29.0	50.7	50.3
EBIT Margin	% 8.7	16.6	13.5	37.9	39.8
Return On Assets	% 11.0	23.0	14.3	47.2	36.2
Eff Tax rate	% 30	30	30	30	30

	2017A	2018A	2019F	2020F	2021F
<b>Halls Creek Project (May-18)</b>					
Tonnes	Kt	1,472	964		
Gold grade	g/t	8.3	7.1		
Contained gold	koz	393	219		

#### Nicolsons

Production		2017A	2018A	2019F	2020F	2021F
Ore milled	Mt	167	231	247	395	400
Grade - gold	g/t	7.6	7.6	7.4	8.0	8.00
Recovery Gold	%	96%	92%	92%	91%	91%
Gold output	oz	39,149	52,199	52,935	92,453	93,623
<b>C1 Costs</b>	A\$/oz	913	941	1,144	792	784
<b>AISC</b>	A\$/oz	1,147	1,129	1,413	974	963

#### Cash Flow Forecasts Incl Debt & Equity



REVENUE		2017A	2018A	2019F	2020F	2021F
Nicolsons	A\$M	65	87	93	164	163
<b>Total</b>	<b>A\$M</b>	<b>65</b>	<b>87</b>	<b>93</b>	<b>164</b>	<b>163</b>
COSTS		2017A	2018A	2019F	2020F	2021F
Nicolsons	A\$M	37	53	63	78	78
Corporate	A\$M	2	1	1	1	1
<b>Total</b>	<b>A\$M</b>	<b>39</b>	<b>54</b>	<b>64</b>	<b>79</b>	<b>79</b>
CAPEX		2017A	2018A	2019F	2020F	2021F
SIBC	A\$M	7.2	7.1	11.4	12.0	12.0
Project	A\$M	13.3	15.6	5.0	0.0	0.0
<b>Total</b>	<b>A\$M</b>	<b>20.5</b>	<b>22.7</b>	<b>16.5</b>	<b>12.0</b>	<b>12.0</b>

#### ASSUMPTIONS

Exchange Rate	A\$/US\$	0.77	0.75	0.72	0.72	0.72
Gold price	US\$/oz	1,258	1,269	1,300	1,250	1,250
Gold price	A\$/oz	1,641	1,695	1,806	1,736	1,736

#### NPV (+1Yr)

	A\$M	A\$/sh.
Halls Creek Project	154	\$ 0.17
Exploration	50	\$ 0.06
Corporate costs	-4	\$ (0.00)
Net Cash (Debt)	27	\$ 0.03
<b>Total</b>	<b>226</b>	<b>\$ 0.25</b>

Source: Petra Capital

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