

Pantoro^{1,4}

BUY

PNR-ASX

10 August 2016

Last: **A\$0.18**
▲ Target: **A\$0.22**

Impressive quarter and outstanding underground drilling results

Quarterly production exceeds expectations

We have been impressed by the continued ramp up at Nicolsons. Tonnes, head grades and mill recoveries were all ahead of expectations at 26kt @ 8.1g/t Au for 6,673oz (S&Pe 25kt @ 7g/t Au for 4,438oz). Costs were largely inline with expectations and a substantial improvement on last quarter. Sustaining capital and processing costs per tonne were up slightly on expectations which diluted the benefits of better grades on cash costs and AISC of A\$1,191/oz (S&Pe A\$1,209/oz). We expect AISC to fall below A\$1,000/oz by Christmas.

Fast tracking plant expansion and ramping up to 50kozpa

Capital expenditure was significantly higher than expected (A\$3.6m v A\$1.8m) as the company ramps up the underground mine and fast tracks process plant upgrade works. The capital spend will continue into the September quarter as PNR fast tracks the plant expansion and mining of open pits. We have brought forward our modelled capital expenditure assumptions to this half year. These costs are covered by the increased cash (A\$3.2m) provided by the additional 2000oz gold loan and the deferred loan repayments this calendar year (A\$3.5m saving). This ramp up should take Nicolsons to ~50kozpa in FY18.

Second splay vein intersected and grades continue to improve

Recent results including 9.7m @ 27g/t Au have identified a second splay vein, the Darcy Lode. The drill hole is drilled along the vein with true widths estimated at 3.8m. This new splay vein is on the same orientation as the Mother Lode splay vein and appears to be a linking structure between the Anderson and Hall lodes. The Mother Lode has returned some exceptional grades and is estimated to contribute 30-40% of the ounces produced at Nicolsons this year. An additional splay vein has the potential to add significant ounces to the growing reserve base.

Maintain BUY rating and lift price target to A\$0.22/sh

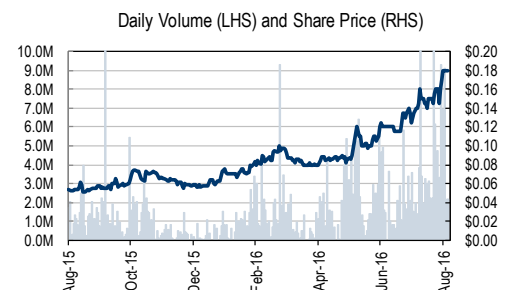
Our SOTP valuation based price target has increased 8c/share to reflect our increased head grade assumptions from 7g/t Au to 8.5g/t Au LOM. This increased head grade is supported by mined grades, reserve grades and underground drilling intersections. We have also extended mine life to 5.5 years from 3.5 years on the back of recent underground drilling results as well as reserve definition at Rowdies and Wagtail.

Whats changed?	Last	Current
Rating	BUY	BUY
Target (A\$)	\$0.14	\$0.22
Gold Production 2016E (koz)	14.67	18.80
Gold Production 2017E (koz)	34.17	34.77
Gold Production 2018E (koz)	47.28	49.19

Share Data	
Share o/s (mm, basic/f.d. itm)*	697.1
52-week high/low (A\$)	0.18/0.051
Market cap (A\$m)*	\$125.48
EV (A\$m)*	\$129.45
Net debt (A\$m)*	\$3.97
Projected return*	22%
NAV0%/share	\$0.28
NAV8%/share	\$0.22
P/NAV0%	0.64
P/NAV8%	0.82

Financial Data	FY16E	FY17E	FY18E
YE Jun. 30			
Gold production (k oz)	19	35	49
Cash costs (A\$/oz)	\$1,113	\$760	\$744
Capex (A\$m)	-\$14	-\$8	-\$4
EBITDA (A\$m)	\$3	\$31	\$37
EPS	\$0.00	\$0.03	\$0.03
FCFPS	-\$0.00	\$0.03	\$0.05
P/E	391.1	5.6	5.7
P/FCF	-270.2	5.2	3.3
EV/EBITDA	39.8	4.2	3.5

*All figures in A\$ unless otherwise noted



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Quarterly production performance

As shown in the table below quarterly production performance exceeded expectations. Tonnes, head grades and mill recoveries were all ahead of expectations. On a month by month basis head grades were diluted by May's mined grade while tonnes mine and processed showed encouraging consistency.

Costs were largely in line with expectations and a substantial improvement on last quarter. Sustaining capital and processing costs per tonne were up slightly on expectations which diluted the benefits of better grades on cash costs and AISC. We have made adjustments in our model going forward to reflect this.

Capital expenditure was significantly higher than expected as the company ramps up the underground mine and fast tracks process plant upgrade works. This additional capital expenditure resulted in a lower cash balance than expected. The capital spend has continued in to this quarter in order to fast track the plant expansion and mining of open pits. We have brought forward our modelled capital expenditure assumptions to this quarter and the next. These costs are covered by the increased cash provided by the additional 2,000oz gold loan and the deferred loan repayments this calendar year. Corporate costs were slightly higher and exploration costs slightly lower than expected. We have adjusted our model going forward to reflect this.

Figure 1. Actual performance compared to our forecast and the previous quarter

Assumption	Actual	Our Assumption	Mar 16
Ore milled (t)	26,331	25,000	23,893
Head grade (g/t Au)	8.12	7.00	6.33
Recovery (%)	97.1	96.0	94.3
Gold produced (oz)	6,673	5,401	4,582
C1 cash cost (A\$/oz)	993	958	1,199
AISC (A\$/oz)	1,191	1,209	1,607
Exploration Spend (A\$m)	0.1	0.2	n.a
Corporate Spend (A\$m)	0.3	0.2	n.a
Capex Spend (A\$m)	3.6	1.8	n.a
Cash & Bullion (A\$m)	6.1	7.0	7.0

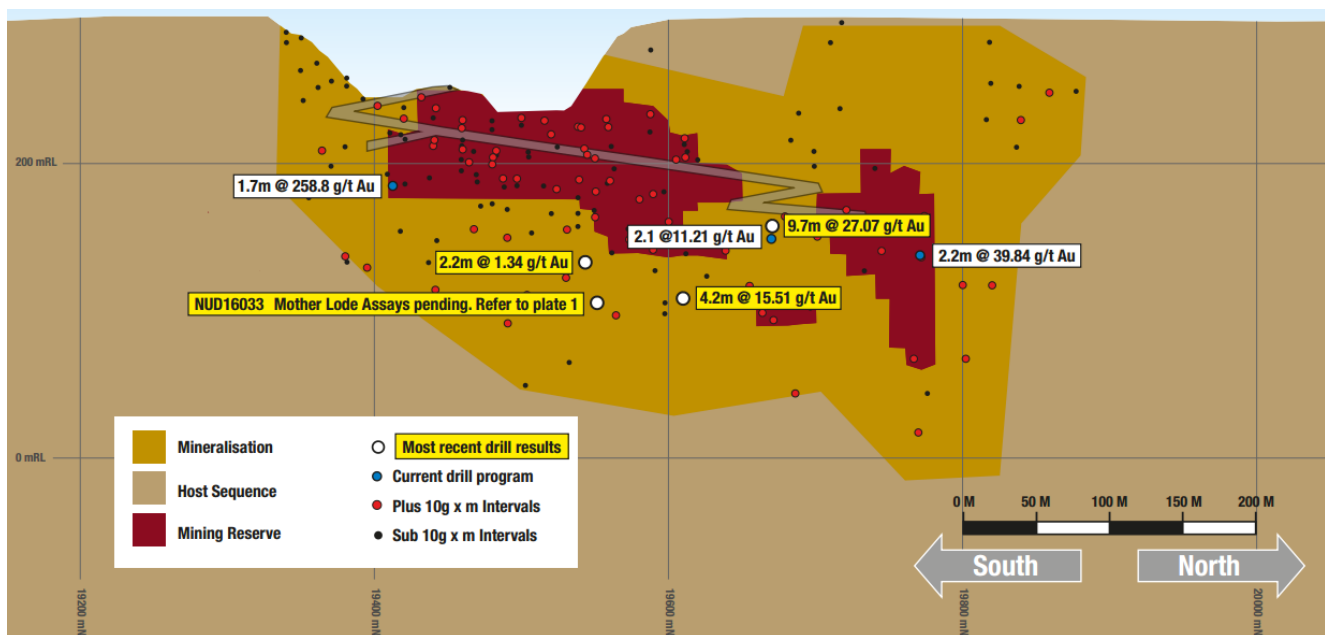
Source: Somers and Partners

We have been impressed by the continued ramp up at Nicolsons. The company continues to release positive news flow and this has been reflected in share price performance.

Underground drilling results and continued overcall on reserves

Recent results including 9.7m @ 27g/t Au have identified a second splay vein, the Darcy Lode. The drill hole is drilled along the vein with true widths estimated at 3.8m. This new splay vein is on the same orientation as the Mother Lode splay vein and appears to be a linking structure between the Anderson and Hall lodes. The Mother Lode has returned some exceptional grades and is estimated to contribute 30-40% of the ounces produced at Nicolson's this year. An additional splay vein has the potential to add significant ounces to the growing reserve base.

Figure 2. Latest drilling intersections on long section



Source: PNR

In addition, the company is awaiting the results of a sulphide rich drilling intersection some 70m below the current resource within an interpreted extension to the Mother Lode. An additional 70m of this high grade lode would be significant.

The increased underground ore reserves are significant in terms of grade. The grade has increased from 6.17g/t Au to 9.81g/t Au. In addition, the quarterly announcement reports 62,400t @ 11.24g/t Au (22,550oz) as underground developed stocks setting a great platform for mine production this year.

Quarterly production grades of 8.1g/t Au, reserve grades of 9.8g/t Au and stock grades of 11.2g/t Au give us the confidence to lift our assumed head grade from 7g/t Au to 8.5g/t Au going forward.

Open pit resources and plant upgrade

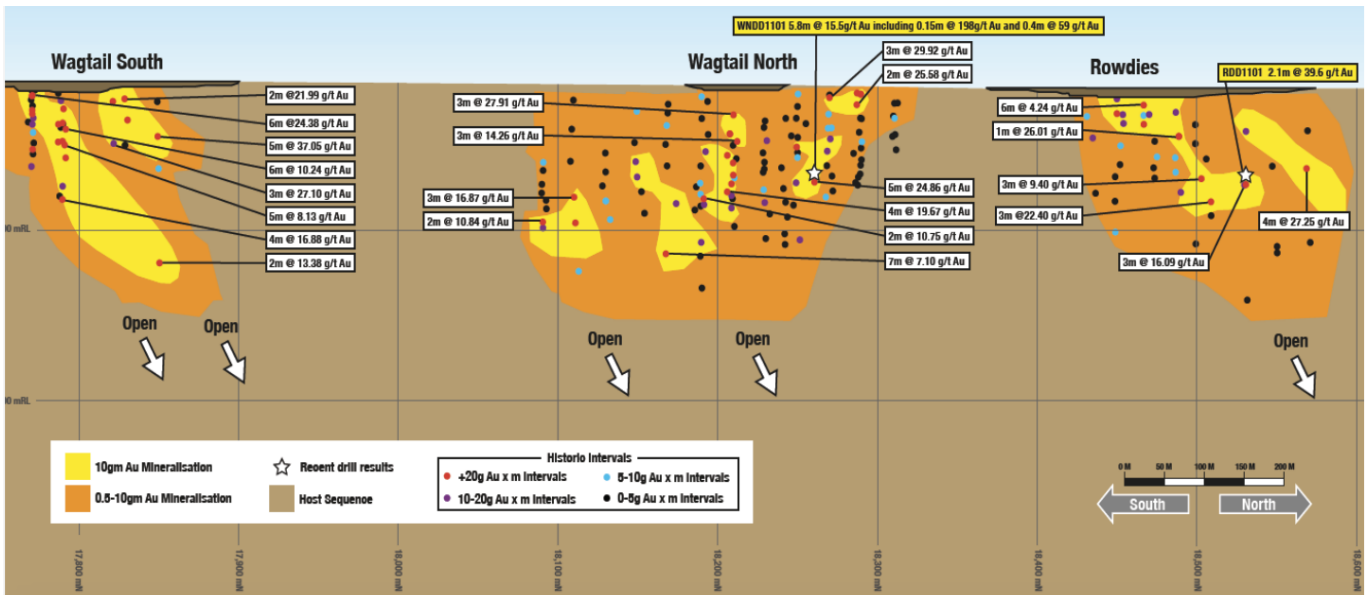
PNR has announced initial open pit reserves of 96.5kt @ 5.55g/t Au for 16,350oz that beat our expectations of 15koz. Reserves are from three shallow high-grade open pits at Rowdies and Wagtail, located just 1.5km to the south of the Nicolson's plant. PNR intends to commence production from these pits next quarter at AISC of A\$965/oz over a period of 9 months at a net profit of A\$12m.

The additional open pit production in late 2016 allows the company to fast track a simple upgrade to the processing plant while underground development advances to support 200ktpa from underground 9 months later. The open pit reserves give us the confidence to lift our forecast production in FY17 from 28kopzpa to 35kopzpa and to ~50kopzpa thereafter.

The upgrade to the plant is simple and just requires two additional leach tanks and minor modifications to the classification circuit which we estimate will cost less than A\$1m in capital.

The mineralisation continues at depth with higher grade intersections showing promise for a potential future underground operation at Wagtail/Rowdies. But a significant amount of additional drilling is required to test this potential first.

Figure 3. Long section showing Wagtail and Rowdies drilling intersections and down plunge potential



Source: PNR

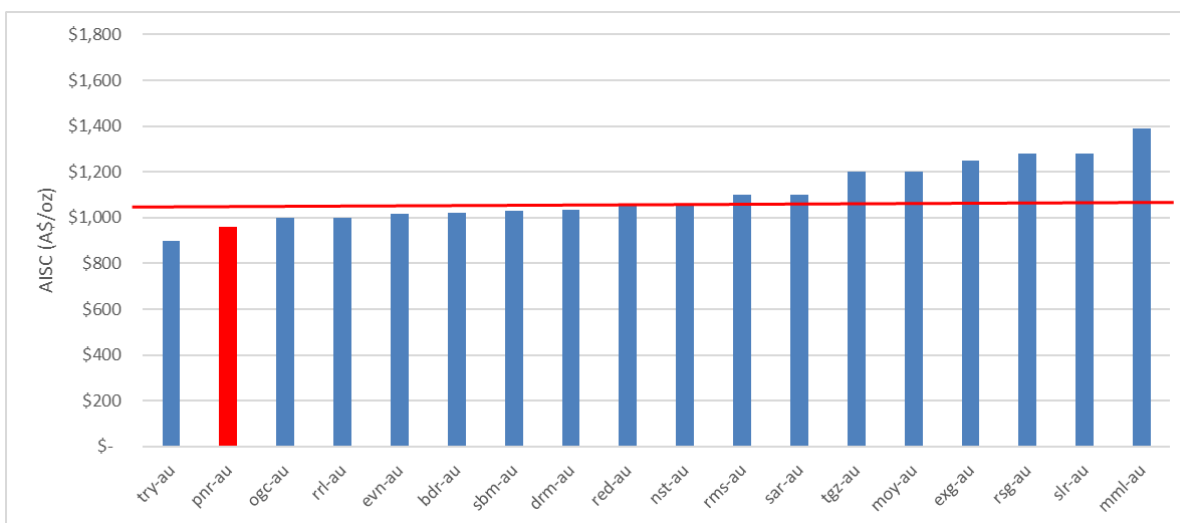
Updated valuation

On the back of the better than expected quarterly results and recent news flow we have made the following adjustments to our model.

- We have modelled the increased gold loan and deferred repayment schedule. We have included the updated hedging.
- We have increased our head grade assumptions to 8.5g/t Au from 7g/t Au as outlined above.
- We have extended mine life to 5.5 years as we gain confidence from underground drilling.
- We assume the additional working capital from the increased gold loan and deferred repayments this half year support the capital development of the open pit (S&Pe \$1.5m) and process plant expansion to 200ktpa (S&Pe \$1m). We have brought this increased production forward in our model.
- We assume the open pit production is stockpiled and spread over six quarters blending in with higher grade underground ore.
- Maintain process recoveries at 96% despite better performance this quarter.

Thanks to high grades, PNR is positioned as one of the lowest cost gold producers on the ASX this year.

Figure 4. FY17 AISC forecasts across the ASX listed gold sector



Source: Somers and Partners

Ticker PNR-AU Recommendation BUY Target Share price (A\$) 22.0c Current Share price (A\$) 18.0c Implied Return (%) 22% P/NAV (x) 0.82		Financial Yr. End 30 June Shares on issue (post Bulletin issue & con note convert) (m) 697.1 Market Cap (A\$m) 125.5 Enterprise Value (A\$m) 129.5 Cash (forecast end of qtr) (A\$m) 10.3 Debt(A\$m) 14.3																																																																																																					
Valuation (A\$m)																																																																																																							
Asset	Discount rate	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)	Financials (A\$m)																																																																																																		
Nicolson Gold mine	8%	1.00 X	\$133.2	19.1c	A\$m	FY2016	FY2017	FY2018	FY2019																																																																																														
Exploration Upside	n.a.	p/nav	\$10.0	1.4c	Profit & Loss																																																																																																		
Cash (forecast end of qtr)	n.a.	p/nav	\$10.3	1.5c	Revenue	\$21.7	\$60.8	\$75.5	\$90.2																																																																																														
Total NAV			\$153.5	22.0c	Cost of Sales	\$17.0	\$27.2	\$35.6	\$37.0																																																																																														
<div style="text-align: center;"> Valuation Split (%) </div>					Gross Profit	\$4.7	\$33.6	\$40.0	\$53.2																																																																																														
					EBITDA	\$3.2	\$30.8	\$36.7	\$49.5																																																																																														
					Net Profit before tax	\$0.2	\$18.5	\$18.1	\$33.8																																																																																														
					Tax Payable	\$0.0	\$0.0	\$0.0	(\$8.4)																																																																																														
					Profit after tax	\$0.2	\$18.5	\$18.1	\$25.4																																																																																														
					Balance Sheet																																																																																																		
					Assets																																																																																																		
					Cash & Liquid assets*	\$6.1	\$26.0	\$57.4	\$94.5																																																																																														
					PPE & Exp. & Dev.	\$30.9	\$26.4	\$11.7	\$0.0																																																																																														
					Total Current Assets	\$9.1	\$29.0	\$60.4	\$97.5																																																																																														
Total Assets	\$40.0	\$55.4	\$72.1	\$97.5																																																																																																			
Liabilities																																																																																																							
Senior Debt	\$1.8	\$4.9	\$4.9	\$4.9																																																																																																			
Total Current Liabilities	\$12.8	\$15.0	\$13.6	\$13.6																																																																																																			
Total Liabilities	\$18.5	\$16.4	\$15.0	\$15.0																																																																																																			
Cashflow Generation																																																																																																							
Operating cashflow	\$3.3	\$24.4	\$35.4	\$41.2																																																																																																			
Equity Placement	\$5.8	\$0.1	\$0.0	\$0.0																																																																																																			
Debt Funding	\$3.3	\$3.2	\$0.0	\$0.0																																																																																																			
Capital Expenditure	(\$14.2)	(\$7.8)	(\$4.0)	(\$4.0)																																																																																																			
Free cash flow	(\$0.4)	\$19.9	\$31.4	\$37.2																																																																																																			
Reserve and Resources Statement (100% of Project)																																																																																																							
Status	Tonnes (Mt)	Grade Au (g/t)	Contained Au (koz)	EV / oz	EPS (AUDc)	0.0c	3.2c	3.2c	4.4c																																																																																														
Total Reserves	0.5	6.87	113.8	\$1,103	FCFPS (A\$)	-0.1c	3.5c	5.5c	6.5c																																																																																														
M&I only	0.8	6.56	171.5	\$755	P/E ratio (x)	478.6 X	6.8 X	7.0 X	5.0 X																																																																																														
Total Resource	1.0	6.52	217.6	\$595	P/FCF (x)	-330.6 X	6.4 X	4.0 X	3.4 X																																																																																														
Production	1.1	8.13	295.6	\$438	EV/EBITDA (x)	39.8 X	4.2 X	3.5 X	2.6 X																																																																																														
Production Profile (OzAu)					Current ratio (x)	0.7 X	1.9 X	4.4 X	7.2 X																																																																																														
Operation	FY2016	FY2017	FY2018	FY2019	Shares on Issue (M)	541.9	572.7	572.7	572.7																																																																																														
Nicolson	18,804	34,769	49,189	54,194	Gold Price (US\$/Oz)	\$1,182	\$1,346	\$1,300	\$1,300																																																																																														
Total	18,804	34,769	49,189	54,194	FX (AUD:USD)	\$0.74	\$0.75	\$0.75	\$0.75																																																																																														
Cash Cost (A\$)					Ratios and Key Financial Data																																																																																																		
AUD / oz	FY2016	FY2017	FY2018	FY2019	Directors & Management	Major Shareholders																																																																																																	
Gold Price	\$1,602	\$1,794	\$1,733	\$1,733	Non Exec. Chairman	Peter Cook	Robmar investments	12.3%																																																																																															
C1 Cash costs*	\$1,113	\$760	\$744	\$705	Managing Director	Paul Cmrlc	Matsa Resources	7.2%																																																																																															
C3 Prod. Cost *	\$1,155	\$1,177	\$1,190	\$1,067	Non Exec. Director	David Osikore	Total	19.5%																																																																																															
AISC*	\$1,476	\$956	\$896	\$851	Company Secretary	David Okeby																																																																																																	
					CFO	Scott Balloch																																																																																																	
					Operations Director	Scott Huffadine																																																																																																	
Group Gold Production and AISC per Financial Year					*Expensing and capitalising of cash costs will vary and consequently differ from management guidance																																																																																																		
OzAu					Gold Price and Discount Rate Matrix																																																																																																		
	2016	2017	2018	2019	2020	<table border="1"> <thead> <tr> <th colspan="2"></th> <th colspan="8">Gold price (US\$)</th> </tr> <tr> <th>NAV</th> <th>Discount Rate</th> <th>\$ 1,100</th> <th>\$ 1,200</th> <th>\$ 1,250</th> <th>\$ 1,300</th> <th>\$ 1,350</th> <th>\$ 1,400</th> <th>\$ 1,500</th> <th></th> </tr> </thead> <tbody> <tr> <td></td> <td>20%</td> <td>0.14</td> <td>0.16</td> <td>0.17</td> <td>0.17</td> <td>0.18</td> <td>0.19</td> <td>0.21</td> <td>0.21</td> </tr> <tr> <td></td> <td>15%</td> <td>0.15</td> <td>0.17</td> <td>0.18</td> <td>0.19</td> <td>0.20</td> <td>0.21</td> <td>0.22</td> <td>0.23</td> </tr> <tr> <td></td> <td>12%</td> <td>0.16</td> <td>0.18</td> <td>0.19</td> <td>0.20</td> <td>0.21</td> <td>0.22</td> <td>0.22</td> <td>0.24</td> </tr> <tr> <td></td> <td>10%</td> <td>0.17</td> <td>0.19</td> <td>0.20</td> <td>0.21</td> <td>0.22</td> <td>0.23</td> <td>0.23</td> <td>0.25</td> </tr> <tr> <td></td> <td>8%</td> <td>0.18</td> <td>0.20</td> <td>0.21</td> <td>0.22</td> <td>0.22</td> <td>0.23</td> <td>0.24</td> <td>0.26</td> </tr> <tr> <td></td> <td>5%</td> <td>0.19</td> <td>0.21</td> <td>0.22</td> <td>0.24</td> <td>0.25</td> <td>0.26</td> <td>0.26</td> <td>0.28</td> </tr> <tr> <td></td> <td>0%</td> <td>0.21</td> <td>0.24</td> <td>0.25</td> <td>0.27</td> <td>0.28</td> <td>0.29</td> <td>0.32</td> <td></td> </tr> </tbody> </table>										Gold price (US\$)								NAV	Discount Rate	\$ 1,100	\$ 1,200	\$ 1,250	\$ 1,300	\$ 1,350	\$ 1,400	\$ 1,500			20%	0.14	0.16	0.17	0.17	0.18	0.19	0.21	0.21		15%	0.15	0.17	0.18	0.19	0.20	0.21	0.22	0.23		12%	0.16	0.18	0.19	0.20	0.21	0.22	0.22	0.24		10%	0.17	0.19	0.20	0.21	0.22	0.23	0.23	0.25		8%	0.18	0.20	0.21	0.22	0.22	0.23	0.24	0.26		5%	0.19	0.21	0.22	0.24	0.25	0.26	0.26	0.28		0%	0.21	0.24	0.25	0.27	0.28	0.29	0.32	
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