

Pantoro Ltd^{1,4}

BUY

PNR-ASX

12 May 2016

Last: **A\$0.10**
▲ Target: **A\$0.14**

Open pit mining to expand Nicolsons production to 200ktpa

Open pit reserves of 16,350 ounces to supplement underground production

PNR has announced initial 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 Nicolsons plant. PNR intends to commence production from these pits in 1HFY17 at AISC of A\$965/oz over a period of 9 months at a net profit of A\$12m.

Open pits will support plant upgrade from 130ktpa to 200ktpa

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 28kozpa to 34kozpa and from 28kozpa to ~45kozpa thereafter based on our conservative head grade of 7g/t Au. 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.

Reserve overcall continues with head grades likely to improve

The overcall on reserve ounces continues with the average mine grade for CY16 of 7.4g/t Au significantly overcalling reserve grade of 6.2g/t Au. Overcall on the reserve averaged 186% on the first three levels due to the higher grades and significant ore mined from outside reserves. Now stoping has commenced, mining dilution will reduce and we are confident head grades will continue to lift even further above reserve grades. PNR plans to release updated reserves this quarter which we anticipate will be a significant improvement on historic reserves that were modelled with open pit dilution in mind. This continues to represent upside on our valuation.

Maintain BUY rating and lift price target to A\$0.14/sh

Our SOTP valuation based price target has increased 3c/share to reflect our assumptions that production rates will lift to 200ktpa from 2017. Our modelling assumes initial capital of A\$1m for plant upgrades and A\$0.5m for open pit mining. We assume open pit mining costs of A\$4.00/t which we feel are conservative. We model open pit production ramping up from November and lasting 10 months. As stated above, we continue to model head grades at 7g/t Au but feel there is considerable upside to this.

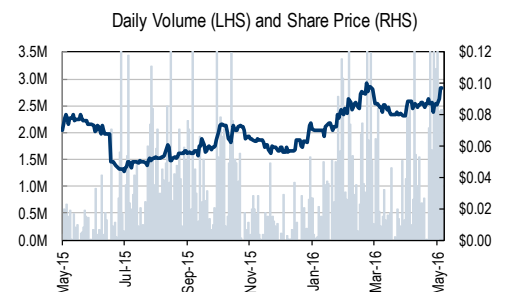
If a grade of 9g/t Au is modelled (which we feel is achievable now stoping has commenced), this results in annual production in the region of 55kozpa at AISC below A\$800/oz. In this scenario our target price lifts to 19.5c.

Rating	BUY
Target (A\$)	\$0.14
Gold Production 2016E (koz)	14.67
Gold Production 2017E (koz)	34.17
Gold Production 2018E (koz)	47.28

Share Data	
Share o/s (mm, basic/f.d. itm)*	536.6
52-week high/low (A\$)	0.1/0.044
Market cap (A\$m)*	\$73.18
EV (A\$m)*	\$66.43
Net debt (A\$m)*	-\$6.75
Projected return*	32%
NAV0%/share	\$0.22
NAV8%/share	\$0.14
P/NAV0%	0.48
P/NAV8%	0.76

Financial Data			
YE Jun. 30	FY16E	FY17E	FY18E
Gold production (k oz)	15	34	47
Cash costs (A\$/oz)	\$1,220	\$885	\$808
Capex (A\$m)	-\$7	-\$2	-\$1
EBITDA (A\$m)	\$3	\$30	\$33
EPS	\$0.00	\$0.03	\$0.03
FCFPS	\$0.00	\$0.04	\$0.05
P/E	58.3	3.4	3.0
P/FCF	31.8	2.8	2.0
EV/EBITDA	19.5	2.2	2.0

*All figures in A\$ unless otherwise noted

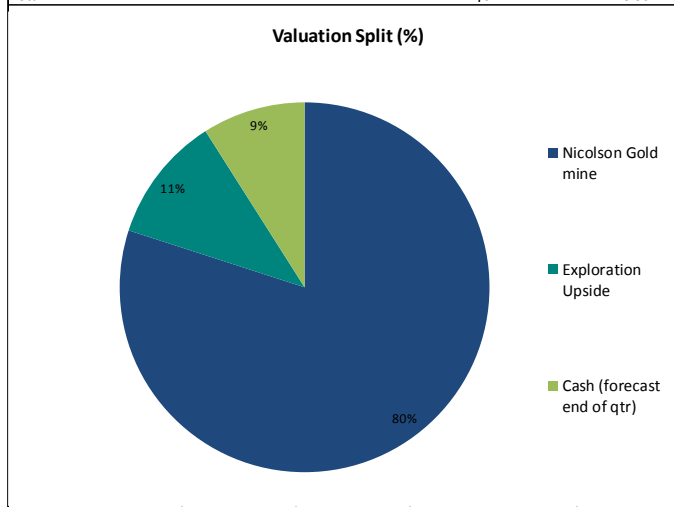


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See important disclosures on the last two pages of this report

Ticker	PNR-AU	Financial Yr. End	30 June
Recommendation	BUY	Shares on issue (post Bulletin issue & excl. unpaid cap.) (m)	666.6
Target Share price (A\$)	13.9c	Market Cap (A\$m)	73.2
Current Share price (A\$)	10.5c	Enterprise Value (A\$m)	66.4
Implied Return (%)	33%	Cash (forecast end of qtr) (A\$m)	8.6
P/NAV (x)	0.75	Debt(A\$m)	1.8

Valuation (A\$m)					Financials (A\$m)				
Asset	Discount rate	NAV "X" Factor	NAV Target (A\$m)	Target Price (A\$)	A\$m	FY2016	FY2017	FY2018	FY2019
Nicolson Gold mine	8%	1.00 X	\$76.2	10.9c	Profit & Loss				
Exploration Upside	n.a.	p/nav	\$10.5	1.5c	Revenue	\$19.8	\$66.3	\$72.2	\$69.1
Cash (forecast end of qtr)	n.a.	p/nav	\$8.6	1.2c	Cost of Sales	\$14.7	\$32.7	\$35.3	\$34.0
Unpaid capital (repayment)	n.a.	p/nav	\$1.8	0.3c	Gross Profit	\$5.1	\$33.6	\$37.0	\$35.1
Total NAV			\$97.1	13.9c	EBITDA	\$3.4	\$30.3	\$33.4	\$31.7
					Net Profit before tax	\$1.0	\$18.9	\$20.6	\$26.8
					Tax Payable	\$0.0	\$0.0	\$0.0	(-\$7.8)
					Profit after tax	\$1.0	\$18.9	\$20.6	\$19.1



A\$m	FY2016	FY2017	FY2018	FY2019
Balance Sheet				
Assets				
Cash & Liquid assets*	\$8.6	\$31.2	\$62.4	\$85.5
PPE & Exp. & Dev.	\$24.9	\$15.9	\$4.0	\$0.0
Total Current Assets	\$11.6	\$34.2	\$65.4	\$88.5
Total Assets	\$36.5	\$50.1	\$69.4	\$88.5
Liabilities				
Senior Debt	\$0.0	\$0.0	\$0.0	\$0.0
Total Current Liabilities	\$11.0	\$7.5	\$6.1	\$6.1
Total Liabilities	\$14.1	\$8.9	\$7.5	\$7.5
Cashflow Generation				
Operating cashflow	\$0.7	\$25.1	\$32.1	\$23.9
Equity Placement	\$7.7	\$0.0	\$0.0	\$0.0
Debt Funding	\$3.3	\$0.0	\$0.0	\$0.0
Capital Expenditure	(-\$8.2)	(-\$2.4)	(-\$0.9)	(-\$0.8)
Free cash flow	\$1.8	\$22.6	\$31.2	\$23.1

Status	Tonnes (Mt)	Grade Au (g/t)	Contained Au (koz)	EV / oz
Total Reserves	0.4	6.17	86.4	\$847
M&I only	0.9	5.89	163.1	\$407
Total Resource	1.1	5.99	209.2	\$317
Production	0.8	6.81	171.7	\$387

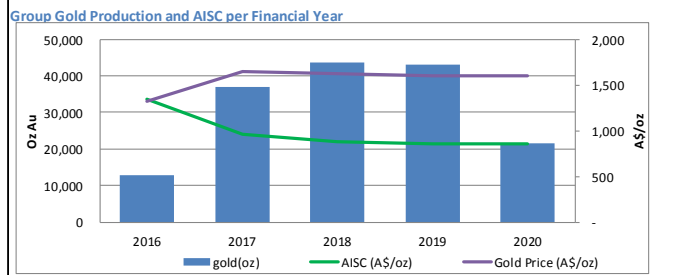
Ratios and Key Financial Data	FY2016	FY2017	FY2018	FY2019
EPS (AUDc)	0.2c	3.2c	3.5c	3.2c
FCFPS (A\$)	0.3c	3.8c	5.3c	3.9c
P/E ratio (x)	76.6 X	4.4 X	4.0 X	4.3 X
P/FCF (x)	41.9 X	3.6 X	2.6 X	3.6 X
EV/EBITDA (x)	19.5 X	2.2 X	2.0 X	2.1 X
Current ratio (x)	1.1 X	4.6 X	10.7 X	14.5 X
Shares on Issue (M)	545.7	590.4	590.4	590.4

Operation	FY2016	FY2017	FY2018	FY2019
Nicolson	14,665	34,175	47,285	43,211
Total	14,665	34,175	47,285	43,211

Gold Price (US\$/Oz)	\$1,165	\$1,225	\$1,200	\$1,200
FX (AUD:USD)	\$0.74	\$0.73	\$0.74	\$0.75

AUD / oz	FY2016	FY2017	FY2018	FY2019
Gold Price	\$1,579	\$1,690	\$1,628	\$1,600
C1 Cash costs*	\$1,220	\$885	\$808	\$787
C3 Prod. Cost *	\$1,218	\$1,244	\$1,154	\$950
AISC*	\$1,476	\$1,049	\$910	\$886

Directors & Management		Major Shareholders	
Non Exec. Chairman	Peter Cook	Peter Cook	4.0%
Managing Director	Paul Cmrlec	Sprott Asset Mngm	3.3%
Non Exec. Director	David Osikore	Mark Okeby	2.6%
Company Secretary	David Okeby	Fletcher Meurs	2.3%
CFO	Scott Balloch	Black Rock	2.2%
Operations Director	Scott Huffadine	Total	14.4%



*Expensing and capitalising of cash costs will vary and consequently differ from management guidance

		Gold price (US\$)						
		\$ 900	\$ 1,000	\$ 1,100	\$ 1,150	\$ 1,200	\$ 1,250	\$ 1,300
Discount Rate	NAV	0.08	0.09	0.11	0.11	0.12	0.13	0.13
	20%	0.08	0.10	0.11	0.12	0.13	0.13	0.14
	15%	0.08	0.10	0.12	0.12	0.13	0.14	0.15
	12%	0.08	0.10	0.12	0.12	0.13	0.14	0.15
	10%	0.09	0.10	0.12	0.13	0.14	0.14	0.15
	8%	0.09	0.11	0.12	0.13	0.14	0.15	0.15
	5%	0.09	0.11	0.13	0.14	0.14	0.15	0.16
0%	0.10	0.12	0.14	0.15	0.16	0.16	0.17	

Source: Company data, Somers estimates

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