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Pantoro Limited (PNR)

Uninterrupted production growth continues

Recommendation
Buy (unchanged)
Price
$0.245
Target (12 months)
$0.31 (unchanged)

GICS Sector

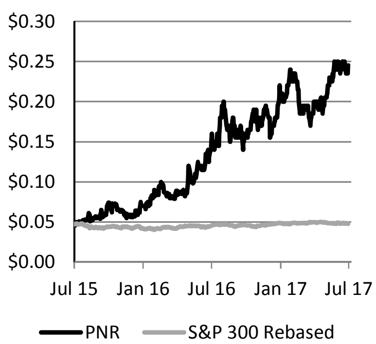
Materials

Expected Return	
Capital growth	**26.5%**
Dividend yield	**0%**
Total expected return	**26.5%**
Company Data & Ratios	
Enterprise value	**$182.8m**
Market cap	**$186.7m**
Issued capital	**762.1m**
Free float	**80%**
Avg. daily val. (52wk)	**$524,778**
12 month price range	**$0.135-$0.255**

Price Performance

	(1m)	(3m)	(12m)
Price (A$)	0.25	0.19	0.13
Absolute (%)	0.00	32.43	88.46
Rel market (%)	0.03	35.55	80.24

Absolute Price



SOURCE: IRESS

Preliminary quarterly report

PNR has released a preliminary report for June 2017 quarter. Gold production was 11,828oz, up 14% from 10,348oz produced in the March quarter. This was achieved from mill throughput of 57.1kt for the quarter, up 35% qoq. Both these metrics reflect steady increases and un-interrupted production growth since operations re-started. Underground production totalled 35.1kt at a grade of 7.98 g/t Au plus 5.3kt of low grade ore stockpiled. Initial ore development in the Johnston Lode from the south decline mined higher grades than planned, indicating a continued pattern of positive grade reconciliations. Open pit production totalled 26.2kt at a grade of 4.85 g/t Au, plus 5.8kt of low grade ore stockpiled. Cash and bullion at quarter end was $11.9m ($11.5m at end March) and the balance of the gold loan reduced to 5.0koz (from 6.5koz at end March), or approximately $8.0m at current spot prices.

Momentum remains with production growth

We calculate FY17 production of 39.1koz, marginally below our 40.2koz forecast which had been predicated on a 50kozpa run-rate in the June quarter. As it is, production was slightly below that, on a run-rate of 47.3kozpa. Importantly momentum remains with production growth. The processing plant significantly beat its targeted run-rate of 200ktpa, with 57kt processed during the quarter (for a 228ktpa run-rate). We back-calculate a head grade of ~7g/t Au for the quarter, slightly lower than our forecast, but we note that the great majority of underground production is still coming from development ore as opposed to higher grade stoping ore. This is a situation we expect to reverse in the coming quarters as underground stoping continues to ramp-up.

Investment thesis – Buy, Valuation $0.31

At this time we make no changes to our NPV-based valuation of $0.31/sh as we await the release of the final production and cost report for the June quarter. We retain our Buy recommendation and continue to back PNR as one of our top picks across the sector on the numerous, positive, company-specific catalysts we see emerging.

Earnings Forecast

Year end June 30	2016a	2017e	2018e	2019e
Sales (A$m)	20	60	86	103
EBITDA (A$m)	4	23	48	63
NPAT (reported) (A$m)	(5)	11	27	34
NPAT (adjusted) (A$m)	(5)	11	27	34
EPS (adjusted) (¢ps)	(1)	2	4	4
EPS growth (%)	nm	nm	118%	28%
PER (x)	nm	15.2	7.0	5.5
FCF Yield (%)	-9%	9%	16%	23%
EV/EBITDA (x)	45.4	7.9	3.8	2.9
Dividend (¢ps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-30%	39%	58%	45%

SOURCE: BELL POTTER SECURITIES ESTIMATES

Pantoro Limited (PNR)

Company description

PNR is a growing gold production and development company. The 100% owned Halls Creek Project (including the Nicolsons Gold Mine) is PNR's flagship project. The project is located in the Kimberley Region on Western Australia, approximately 45km SW of the town of Halls Creek. First gold was poured at Nicolsons in September 2015 and PNR is currently focused on establishing steady-state production, having recently achieved a quarterly run-rate in excess of 47kozpa gold production. In September 2016, mining of the Rowdies and Wagtail open pits, located 1.5km south of the Nicolsons pit, also commenced. Ore is processed through a refurbished processing plant to produce gold doré on site. Expansion of the Nicolsons processing plant to 200ktpa throughput is near complete and as production is ramped-up from the Nicolsons underground, gold production is expected to increase to +50kozpa. PNR also retains an exposure to an exploration portfolio in PNG, prospective for large scale copper-gold porphyry deposits. With the Halls Creek Project now the primary focus of the company, PNR is in the process of seeking partners for the PNG assets.

Investment thesis – Buy, Target Price $0.31/sh

At this time we make no changes to our NPV-based valuation of $0.31/sh as we await the release of the final production and cost report for the June quarter. We retain our Buy recommendation and continue to back PNR as one of our top picks across the sector on the numerous, positive, company-specific catalysts we see emerging.

Valuation

Our target price for PNR is based upon the 12-month forward NPV of our forecast free cash flows from the Nicolsons mine. This is included in a sum-of-the-parts valuation for the company which also includes a notional estimate for the value of the exploration potential of the balance of the Halls Creek Project, the PNG exploration assets and a discounted cash flow estimate of corporate costs.

Table 1 – PNR sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	$m	$/sh
Project (un-risked NPV10)	194	0.26
Other exploration	48	0.06
Corporate overheads	(4)	(0.00)
Subtotal	239	0.31
Net cash (debt)	4	0.01
Total (undiluted)	**243**	**0.32**
Add options in the money (m)		47.5
Add cash	5	0.0
Total (diluted)	**248**	**0.31**

SOURCE: BELL POTTER ESTIMATES

With upside of 26.5% from the last closing share price to our target price, we retain our Buy recommendation, in line with our ratings structure.

Resource sector risks

Risks to PNR include, but are not limited to:

- **Funding and capital management risks.** Funding and capital management risks can include access to debt and equity finance, maintaining covenants on debt finance, managing dividend payments and managing debt repayments.
- **Operating and development risks.** Mining companies' assets are subject to risks associated with their operation and development. Risks for each company can be heightened depending on method of operation (e.g. underground versus open pit mining) or whether it is a single mine company. Development of mining assets may be subject to receiving permits, approvals timelines or weather events, causing delays to commissioning and commercial production.
- **Operating and capital cost fluctuations.** Markets for exploration, development and mining inputs can fluctuate widely and cause significant differences between planned and actual operating and capital costs. Key operating costs are linked to energy and labour costs as well as access to, and availability of, technical skills, operating equipment and consumables.
- **Commodity price and exchange rate fluctuations**. The future earnings and valuations of exploration, development and operating resource companies are subject to fluctuations in underlying commodity prices and foreign currency exchange rates.
- **Resource growth and mine life extensions.** The viability of future operations and earnings forecasts and valuations reliant upon them may depend upon resource and reserve growth to extend mine lives.
- **Regulatory changes risks.** Changes to the regulation of infrastructure and taxation (among other things) can impact the earnings and valuation of mining companies.
- **Corporate/M&A risks.** Risks associated with M&A activity including differences between the entity's and the market's perception of value associated with completed transactions.

Pantoro Limited
as at 13 July 2017

Recommendation	Buy
Price	$0.245
Target (12 months)	$0.31

Table 2 - Financial summary

PROFIT AND LOSS

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
Revenue	$m	-	19.8	59.7	86.3	103.4
Expense	$m	(1.4)	(15.8)	(36.5)	(38.2)	(40.6)
EBITDA	$m	**(1.4)**	**4.0**	**23.2**	**48.1**	**62.8**
Depreciation	$m	-	(4.4)	(12.5)	(14.8)	(14.8)
EBIT	$m	(1.4)	(0.3)	10.7	33.3	48.0
Net interest expense	$m	-	-	-	0.1	0.8
Unrealised gains (Impairments)	$m	(2.3)	(5.0)	-	-	-
Other	$m	-	-	-	-	-
PBT	$m	**(3.7)**	**(5.3)**	**10.7**	**33.4**	**48.7**
Tax expense	$m	-	-	-	6.6	14.6
NPAT	**$m**	**(3.7)**	**(5.3)**	**10.7**	**26.7**	**34.1**

CASH FLOW

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
OPERATING CASHFLOW						
Receipts	$m	-	17.3	56.9	84.4	102.2
Payments	$m	(1.4)	(14.8)	(20.2)	(37.8)	(40.0)
Tax	$m	-	-	-	-	(6.6)
Net interest	$m	0.1	0.0	-	0.1	0.8
Other	$m	0.0	0.0	-	-	-
Operating cash flow	$m	**(1.3)**	**2.6**	**36.7**	**46.7**	**56.3**
INVESTING CASHFLOW						
Property, plant and equipment	$m	(3.3)	(3.0)	(14.6)	(10.6)	(7.8)
Mine development	$m	(3.8)	(10.2)	(6.3)	(4.6)	(3.4)
Exploration & evaluation	$m	(0.7)	(0.4)	(1.1)	(1.6)	(1.6)
Other	$m	0.3	0.1	-	-	-
Investing cash flow	$m	**(7.5)**	**(13.6)**	**(22.0)**	**(16.8)**	**(12.8)**
Free Cash Flow	$m	**(8.8)**	**(11.0)**	**14.7**	**29.9**	**43.5**
FINANCING CASHFLOW						
Share issues/(buy-backs)	$m	3.9	6.0	-	-	-
Debt proceeds	$m	9.2	3.3	3.2	-	-
Debt repayments	$m	-	(3.3)	(2.7)	(4.2)	-
Dividends	$m	-	-	-	-	-
Other	$m	(0.1)	(0.2)	(12.5)	-	-
Financing cash flow	$m	**13.0**	**5.8**	**(12.0)**	**(4.2)**	**-**
Change in cash	$m	4.3	(5.1)	2.7	25.7	43.5

BALANCE SHEET

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
ASSETS						
Cash & short term investments	$m	6.8	4.9	4.4	30.1	73.6
Accounts receivable	$m	1.8	1.4	4.2	6.0	7.2
Property, plant & equipment	$m	8.0	8.2	15.3	17.0	16.0
Mine development expenditure	$m	6.8	15.2	16.5	15.1	12.6
Exploration & evaluation	$m	5.9	5.8	6.9	8.5	10.1
Other	$m	0.2	2.6	2.6	2.6	2.6
Total assets	$m	**29.4**	**38.1**	**49.8**	**79.4**	**122.1**
LIABILITIES						
Accounts payable	$m	4.9	7.2	9.1	9.6	10.1
Income tax payable	$m	-	-	-	6.6	14.6
Borrowings	$m	-	0.1	0.1	0.1	0.1
Other	$m	10.6	9.0	8.1	3.8	3.8
Total liabilities	$m	**15.6**	**16.3**	**17.3**	**20.1**	**28.7**
SHAREHOLDER'S EQUITY						
Share capital	$m	139.9	151.0	151.0	151.0	151.0
Reserves	$m	3.4	5.5	5.5	5.5	5.5
Retained earnings	$m	(129.4)	(134.7)	(124.0)	(97.2)	(63.1)
Total equity	$m	**13.9**	**21.8**	**32.5**	**59.3**	**93.4**
Weighted average shares	m	345.6	491.0	663.7	762.1	762.1

CAPITAL STRUCTURE

Shares on issue	m		762.1
Performance shares / other	m		0.0
Total shares on issue	**m**		**762.1**
Share price	**$/sh**		**0.245**
Market capitalisation	$m		186.7
Net cash	$m		4.0
Enterprise value (undiluted)	**$m**		**182.8**
Options outstanding (m)	m	(wtd avg ex. price $0.10 per share)	47.5
Options (in the money)	m		47.5
Issued shares (diluted for options)	m		809.6
Market capitalisation (diluted)	m		198.4
Net cash + options	$m		8.9
Enterprise value (diluted)	**$m**		**189.5**

MAJOR SHAREHOLDERS

Shareholder	%	m
Robmar Investments	19.7%	149.9
Ajava Holdings	3.2%	24.5
Bulletin Resources (BNR)	0.0%	0.0
Matsa Resources (MAT)	0.0%	0.0

FINANCIAL RATIOS

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
VALUATION						
NPAT	$m	(3.7)	(5.3)	10.7	26.7	34.1
Reported EPS	c/sh	(1.1)	(1.1)	1.6	3.5	4.5
EPS growth	%	nm	nm	nm	118%	28%
PER	x	nm	nm	15.2x	7.0x	5.5x
DPS	c/sh	-	-	-	-	-
Franking	%	0%	0%	0%	0%	0%
Yield	%	0%	0%	0%	0%	0%
FCF/share	c/sh	(2.5)	(2.2)	2.2	3.9	5.7
P/FCFPS	x	-9.7x	-11.0x	11.0x	6.2x	4.3x
EV/EBITDA	x	-130.4x	45.4x	7.9x	3.8x	2.9x
EBITDA margin	%	nm	20%	39%	56%	61%
EBIT margin	%	nm	nm	18%	39%	46%
Return on assets	%	-17%	-16%	24%	41%	34%
Return on equity	%	-27%	-30%	39%	58%	45%
LIQUIDITY & LEVERAGE						
Net debt (cash)	$m	-	-	(0)	(30)	(74)
ND / E	%	0%	0%	0%	-51%	-79%
ND / (ND + E)	%	0%	0%	0%	-102%	-370%
EBITDA / Interest	x	nm	nm	nm	-441.2x	-83.5x

ORE RESERVE AND MINERAL RESOURCE

Nicolsons Gold Mine	Mt	g/t Au	(koz)
Mineral Resources			
Measured	0.197	13.4	84.9
Indicated	1.047	6.8	228.6
Inferred	0.333	5.9	63.2
Total	**1.577**	**7.4**	**376.7**
Ore Reserve			
Proven	0.214	9.4	64.3
Probable	0.560	6.6	118.5
Total	**0.773**	**7.4**	**182.8**

ASSUMPTIONS - Prices

Year ending June (avg)	Unit	2015a	2016a	2017e	2018e	2019e
Gold	US$/oz	$1,193	$1,168	$1,264	$1,345	$1,425
Silver	US$/oz	$16	$15	$18	$19	$20
Gold	A$/oz	$1,534	$1,602	$1,682	$1,793	$1,900
Silver	A$/oz	$21	$21	$24	$26	$27
Currency						
AUD:USD	A$/US$	0.78	0.73	0.75	0.75	0.75

ASSUMPTIONS - Production & costs

Year ending June	Unit	2015a	2016a	2017e	2018e	2019e
Gold production						
Ore tonnes processed	kt	-	78.7	168.8	200.0	200.0
Head grade	g/t Au	-	6.8	7.5	8.9	9.0
Gold produced	koz	-	16.4	39.1	53.5	54.4
Costs						
Cash costs / oz Au	A$/oz	$0	$1,043	$899	$745	$717
All-in-Sustaining-Costs (AISC)	A$/oz	-	$1,317	$1,100	$838	$866

VALUATION

Ordinary shares (m)						**762.1**
Options in the money (m)						47.5
Diluted m						**809.6**
	Now		**+12 mths**		**+24 mths**	
Sum-of-the-parts	**$m**	**$/sh**	**$m**	**$/sh**	**$m**	**$/sh**
Project (unrisked NPV10)	176	0.23	194	0.26	191	0.25
Other exploration	48	0.06	48	0.06	48	0.06
Corporate overheads	(3)	(0.00)	(4)	(0.00)	(3)	(0.00)
Subtotal	220	0.29	239	0.31	236	0.31
Net cash (debt)	4	0.01	4	0.01	22	0.03
Total (undiluted)	**224**	**0.29**	**243**	**0.32**	**258**	**0.34**
Add options in the money (m)		47.5		47.5		47.5
Add cash	5	0.0	5	0.0	5	0.0
Total (diluted)	**229**	**0.28**	**248**	**0.31**	**263**	**0.32**

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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