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Pantoro Limited (PNR)

Norseman development set to kick off

Recommendation
Buy (unchanged)
Price
\$0.205
Target (12 months)
\$0.27 (previously \$0.28)

GICS Sector
Materials

Expected Return

Capital growth	31.7%
Dividend yield	0.0%
Total expected return	31.7%

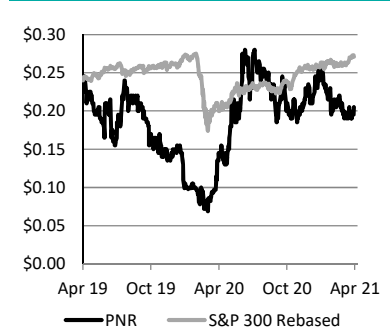
Company Data & Ratios

Enterprise value	\$234.3m
Market cap	\$289m
Issued capital	1,408m
Free float	78%
Avg. daily val. (52wk)	\$706,000
12 month price range	\$0.13-\$0.29

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.21	0.24	0.12
Absolute (%)	0.0	-12.8	78.3
Rel market (%)	-3.3	-17.8	48.9

Absolute Price



SOURCE: IRESS

March 2020 quarterly report

PNR has reported March 2021 quarter production of 8.4koz gold at All-In-Sustaining-Costs (AISC) of A\$1,644/oz (vs BP est. 9.1koz gold at AISC A\$1,547/oz). The result was at the lower end of production guidance of 8.5-9.5koz and just below the midpoint of AISC guidance of A\$1,550-\$1,750/oz. Heavy wet season rainfall and lower mined grades (down 11% from 6.35g/t Au to 5.67g/t Au qoq) were the key drivers of the weaker operational performance at Halls Creek compared with a strong December 2020 quarter. Lower gold production and a lower gold price resulted in a higher AISC per ounce and lower net cash flow of \$2.3m. PNR's cash and gold balance at end March was \$54.4m, down from \$64.9m at end December. PNR remains debt free and unhedged.

Norseman development ramps-up this quarter

The free cash flow from Halls Creek continues to be fully applied to the development activities at Norseman (PNR 50%, Manager), where \$7.7m was spent during the quarter upon the award of key contracts and commencement of deconstruction of the old processing plant. Pending final regulatory approvals, construction work is expected to commence in May 2021 and PNR is guiding for commissioning and production to commence in 1HCY22. We are now assuming total capital spend of ~\$95m (compared w the original \$89m) with ~\$87m remaining. Post quarter-end PNR announced it had completed the \$50m sole expenditure commitment at Norseman, implying ~\$43.5m remaining for each of the JV partners to spend. PNR will also complete the bulk of its staged consideration payments with a \$10m cash payment to TUL on 1 July 2021.

Investment thesis – Buy, TP \$0.27/sh (from Buy, \$0.28/sh)

The March quarterly result has lowered our FY21 and FY22 production forecasts as we push back the Norseman ramp-up by one quarter. This is partially offset by a higher gold price, with earnings lowered 20% in FY21 and increased 22% in FY22. Our NPV-based valuation drops 4% to \$0.27/sh and we retain our Buy recommendation.

Earnings Forecast

Year end 30 June	2020a	2021e	2022e	2023e
Sales (A\$m)	82	89	103	199
EBITDA (A\$m)	18	35	43	91
NPAT (reported) (A\$m)	(29)	13	20	39
NPAT (adjusted) (A\$m)	(14)	13	20	39
EPS (adjusted) (cps)	(1.2)	1.0	1.4	2.7
EPS growth (%)	-2694%	nm	37%	97%
PER (x)	nm	20.2	14.8	7.5
FCF Yield (%)	-10%	-7%	-10%	25%
EV/EBITDA (x)	13.1	6.8	5.4	2.6
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	-31%	11%	12%	20%

SOURCE: BELL POTTER SECURITIES ESTIMATES

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Cash operating costs were effectively controlled and remained stable in absolute dollar terms. Lower capital expenditure and exploration costs were, however, offset by lower gold production and a lower gold price. This resulted in a higher AISC per ounce and lower net cashflow of \$2.3m. This compared with the previous quarter at \$7.6m and guidance of \$3.5m-\$6.0m (based on a gold price of A\$2,600/oz). Adjusting for the lower gold price cashflows would have been ~\$5.8m, at the upper end of the guidance range. PNR's cash and gold balance at end March was \$54.4m, down from \$64.9m at end December.

PNR has provided updated guidance for Jun-2021 and Sep-2021 quarters as follows:

Table 1 - Halls Creek production and cost guidance

	Halls Creek Operations	
	Q4 FY21 Guidance	Q1 FY22 Guidance
Production (oz Au)	9,000 ± 10%	9,000 ± 10%
Revenue @ \$2,300/oz* (\$ million)	\$19 - \$23	\$19 - \$23
C1 (\$/oz)	\$1,300-\$1,350	\$1,300-\$1,350
AISC (\$/oz)*	\$1,550-\$1,750	\$1,550-\$1,750
Major Project Capital (\$ million)	\$2.0 - \$2.5	\$2.0 - \$2.5
Exploration (\$ million)	\$1.0	\$1.0
Net Cashflow (\$ million) @ \$2,300/oz	\$1.4 - \$4.4	\$1.4 - \$4.4

SOURCE: COMPANY DATA

Guidance is largely unchanged except for the application of broader production range bands (to ±10% from ±5%) and net cash flow which is now forecast at A\$2,300/oz gold price compared with A\$2,600/oz previously. PNR remains unhedged and fully exposed to the A\$ gold price.

Production performance actuals and Bell Potter forecasts are summarised below:

Table 2 – Quarterly production summary

	Mar-20 Actual	Jun-20 Actual	Sep-20 Actual	Dec-20 Actual	Mar-21 Actual	Mar-21 BP est.	Variance % qoq	Variance % BP est.
Mining								
Ore mined (t)	50,661	45,882	55,725	49,172	44,220	53,000	-10%	-17%
grade (g/t Au)	5.4	6.4	4.9	6.4	5.7	5.8	-11%	-2%
Contained gold (oz Au)	8,763	9,397	8,779	10,039	8,061	9,883	-20%	-18%
Processing								
Ore milled (t)	55,986	59,002	57,968	57,263	55,322	57,000	-3%	-3%
Head grade (g/t Au)	5.4	5.5	4.6	5.8	5.0	5.3	-14%	-5%
Recovery (%)	93.8%	92.7%	92.6%	94.8%	94.4%	93.5%	-0.4%	0.9%
Gold produced (oz Au)	9,085	9,586	8,012	10,143	8,429	9,081	-17%	-7%
Costs								
Cash costs (A\$/oz)	\$1,603	\$1,327	\$1,365	\$1,188	\$1,398	\$1,269	18%	10%
AISC (A\$/oz)	\$1,872	\$1,578	\$1,612	\$1,435	\$1,644	\$1,547	15%	6%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Norseman development ramps-up this quarter

The free cash flow from Halls Creek continues to be fully applied to the ongoing development activities at Norseman (PNR 50%, Manager), where \$7.7m was spent during the quarter on the award of key contracts and commencement of deconstruction of the old processing plant.

During the quarter a \$57m Engineering, Procurement and Construction (EPC) contract for construction of the new processing plant was awarded to GR Engineering Services. The value of the contact was higher than the \$43m allowed for in the October 2020 Feasibility Study but has been offset by reduced project capital for the accommodation camp – the contract for which was also awarded during the quarter. Pending final regulatory approvals, construction work is expected to commence in May 2021 and PNR is guiding for commissioning and production to commence in 1H CY22.

We are now assuming total capital spend of ~\$95m (compared with the original \$89m) with ~\$87m remaining allowing for the amounts incurred during the March quarter. Post quarter-end PNR announced it had completed the \$50m sole expenditure commitment at Norseman. 50% JV partner Tulla Resources (TUL, restricted) now required to contribute 50% of all project expenditure, equating to ~\$43.5m each. PNR will complete the bulk of its staged consideration payments with a \$10m cash payment to TUL on 1 July 2021.

Other key takeaways from the March 2020 quarterly report include:

- At Norseman and drilling continued with six drill rigs for the majority of the quarter with significant expansion achieved at the Green Lantern discovery within the Scotia Mining centre. The latest results point to potential Resource expansion and increased baseload feed capacity from open-pit and underground operations at Scotia;
- The contract was awarded for and work commenced on a new 260 person accommodation camp in the town of Norseman;
- PNR is still awaiting final project approvals after submitting documentation in the December quarter. PNR is now expecting those to be received and for site works to commence in May 2021;
- At Halls Creek, development of the south decline to access the Wagtail North and Wagtail South orebodies continued during the quarter and should provide access to additional production sources by the December 2021 quarter; and
- Regional exploration programs at Mary River, Grants Creek and Nicolsons are planned to re-commence in May 2021.

Changes to our forecasts and valuation

Following the release of the March 2020 quarter production and cost report, we have made the following changes to our modelled assumptions:

- Lowered our gold production forecast for FY21 on slightly lower mined tonnes and grade from Halls Creek. Our FY22 production forecast is also lowered as we push back the production ramp-up at Norseman from the March 2021 quarter to the June 2021 quarter;
- Updated for our latest commodity price and foreign exchange rate forecasts, which include increases to our medium-term US\$ gold price, which we expect to benefit from ongoing negative real interest rates;
- Lowered our exploration valuation due to lower EV/Resource ounce metrics we have most recently measured in the market, applying A\$128/oz down from A\$135/oz; and
- Updated for the latest capital structure and cash balance.

The net impacts of these changes are summarised in the table overleaf:

Table 3 - Changes to earnings estimates

Year ending 30 June	Previous			New			Change		
	2021e	2022e	2023e	2021e	2022e	2023e	2021e	2022e	2023e
Prices & currency									
Gold (US\$/oz)	1,899	1,763	1,750	1,861	1,888	1,850	-2%	7%	6%
US\$/A\$	0.74	0.73	0.73	0.74	0.73	0.73	1%	0%	0%
Gold (A\$/oz)	2,579	2,414	2,413	2,510	2,586	2,552	-3%	7%	6%
Production & costs									
Gold produced (koz)	36.3	49.5	83.7	35.5	39.9	78.2	-2%	-19%	-6%
AISC (A\$/oz)	1,532	1,581	1,449	1,547	1,631	1,449	1%	3%	0%
Earnings									
Revenue (A\$m)	94	119	202	89	103	199	-5%	-13%	-1%
EBITDA (A\$m)	38	46	86	35	43	91	-10%	-6%	6%
EBIT (A\$m)	16	15	40	13	18	46	-20%	25%	16%
NPAT (underlying) (A\$m)	16	16	34	13.1	20	39	-20%	22%	13%
NPAT (reported) (A\$m)	16.5	16	34	13.1	20	39	-20%	22%	13%
EPS (reported) (cps)	1.3	1.1	2.4	1.0	1.4	2.7	-20%	22%	13%
PER (x)	16.1	18.0	8.4	20.2	14.8	7.5	4.1	(3.3)	(0.9)
EPS growth (%)	nm	-11%	114%	nm	37%	97%	nm	48%	-17%
DPS (reported) (cps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (\$/sh)	0.28	0.27	0.35	0.27	0.27	0.36	-3%	1%	4%
Price Target (\$/sh)	0.28				0.27			-4%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Upcoming catalysts

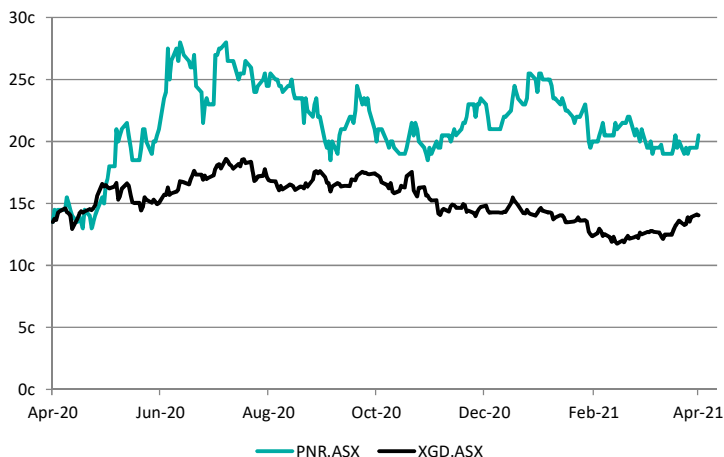
Upcoming catalysts for PNR include:

- Ongoing exploration and development updates from the Norseman Gold Project, where we expect major site works to commence in the coming quarter. Key contracts have now been awarded and, pending final permitting approvals, construction is planned to commence in May 2021;
- The maintenance of production and costs at Halls Creek in-line with guidance. The re-establishment of a consistent operational track record will be a de-risking factor and help PNR fund ongoing exploration and development at Norseman. The June quarter report is due mid-July;
- Further underground drilling results from Halls Creek, where the Rowdies and Wagtail deposits are showing potential for extensions. These may support mine life extensions;
- Potential consolidation of 100% ownership of the Norseman Gold Project; and
- Ongoing gold price strength, with PNR being one of the few unhedged gold producers on the ASX.

Share price performance vs ASX Gold Index

Relative performance chart below:

Figure 1 - PNR relative share price performance vs XGD



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

PNR’s relative performance has improved off a low base and has now outperformed the ASX Gold Index over the last 12 months. The key drivers have, in our view, been Halls Creek meeting (lowered) guidance expectations and the increased recognition in the market for exploration assets showing discovery success and a pathway to development – criteria met by the Norseman Gold Project (NGP).

The 50% ownership and management of the NGP continues to provide the opportunity for positive exploration and development catalysts for PNR’s share price.

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 it is currently producing at a rate of ~35-40kozpa at AISC of A\$1,550-\$1,750/oz.

PNR also has a 50% share in, and management control of, the Norseman Gold Project (NGP), south of Kalgoorlie in WA. The project covers over 1,000km² of tenements, the majority of which are granted Mining Leases. The NGP has a large, high grade gold Resource base totalling 4.4Moz grading 3.9g/t Au, including underground Resources of 2.1Moz grading 15.3g/t Au and surface Resources of 2.4Moz grading 2.3g/t Au. With past production of >5.5Moz, well established infrastructure including an operating power plant, sealed airstrip, past producing mill, road and rail access all neighbouring the Norseman township, it provides an excellent platform for exploration and future production growth.

Investment thesis – Buy, TP \$0.27/sh (from Buy, \$0.28/sh)

The March quarterly result has lowered our FY21 and FY22 production forecasts as we push back the Norseman ramp-up by one quarter. This is partially offset by a higher gold price, with earnings lowered 20% in FY21 and increased 22% in FY22. Our NPV-based valuation drops 4% to \$0.27/sh and we retain our Buy recommendation.

Valuation

Our target price for PNR is based upon the 12-month forward NPV of our forecast free cash flows from the Nicolsons mine and Norseman Gold Project. 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 NGP which we currently value at ~A\$135/oz of gold contained in Resource. We also include a discounted cash flow estimate of corporate costs and adjust for PNR's net cash position and dilute our valuation for in-the-money options.

Table 4 – PNR sum-of-the-parts valuation

Sum-of-the-parts (+12 month Target Price)	\$m	\$/sh
Halls Creek (NPV10)	66.2	0.05
Norseman (PNR attr. NPV10)	127.4	0.09
Other exploration	190.0	0.13
Corporate overheads	(25.1)	(0.02)
Subtotal	358.5	0.25
Net cash (debt)	27.6	0.02
Total (undiluted)	386.1	0.27
Add options in the money (m)		16.7
Add cash	1.8	0.0
Total (diluted)	387.8	0.27

SOURCE: BELL POTTER ESTIMATES

With upside of 31.7% from the last closing share price to our target price, we retain our Buy recommendation, consistent with our recommendation 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.
- **COVID-19 risks.** Mining companies' rely on freedom of movement of workforces, functioning transport routes, reliable logistics services including road, rail, aviation and ports in order to maintain operations and get their products to market. They also rely on liquid, functioning markets to sell their products. Measures being put in place to combat the COVID-19 pandemic are posing risks to these conditions.
- **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.

Table 5 - Financial summary

PROFIT AND LOSS						FINANCIAL RATIOS							
Year ending June	Unit	2019a	2020a	2021e	2022e	2023e	Year ending June	Unit	2019a	2020a	2021e	2022e	2023e
REVENUE						VALUATION							
Revenue	\$m	77.0	82.1	89.2	103.4	199.5	NPAT	\$m	0.8	(29.2)	13.1	19.6	38.6
Expense	\$m	(60.0)	(64.3)	(54.7)	(60.1)	(108.1)	Reported EPS	c/sh	0.1	(2.5)	1.0	1.4	2.7
EBITDA	\$m	17.0	17.8	34.5	43.3	91.3	Adjusted EPS	c/sh	0.1	(1.2)	1.0	1.4	2.7
Depreciation	\$m	(16.1)	(29.1)	(21.4)	(25.1)	(45.4)	EPS growth	%	-95%	-2694%	nm	37%	97%
EBIT	\$m	0.9	(11.3)	13.1	18.2	46.0	PER	x	213.9x	nm	20.2x	14.8x	7.5x
Net interest expense	\$m	0.1	0.5	-	1.4	0.7	DPS	c/sh	-	-	-	-	-
Unrealised gains (Impairments)	\$m	(0.1)	(15.6)	-	-	-	Franking	%	0%	0%	0%	0%	0%
Other	\$m	(0.1)	(2.8)	-	-	-	Yield	%	0%	0%	0%	0%	0%
PBT	\$m	0.8	(29.2)	13.1	19.6	46.7	FCF/share	c/sh	(1.3)	(2.1)	(1.5)	(2.0)	5.0
Tax expense	\$m	-	-	-	-	8.1	P/FCFPS	x	-15.9x	-9.6x	-13.5x	-10.5x	4.1x
NPAT (reported)	\$m	0.8	(29.2)	13.1	19.6	38.6	EV/EBITDA	x	13.8x	13.1x	6.8x	5.4x	2.6x
NPAT (underlying)	\$m	1.0	(13.6)	13.1	19.6	38.6	EBITDA margin	%	22%	39%	42%	46%	46%
							EBIT margin	%	1%	nm	15%	18%	23%
							Return on assets	%	1%	-21%	7%	8%	14%
							Return on equity	%	1%	-31%	11%	12%	20%
CASH FLOW						LIQUIDITY & LEVERAGE							
OPERATING CASHFLOW						Net debt (cash)							
Receipts	\$m	77.0	82.1	85.9	102.7	194.7	ND / E	%	0%	0%	-35%	-16%	-46%
Payments	\$m	(58.1)	(62.3)	(57.2)	(58.8)	(96.1)	ND / (ND + E)	%	0%	0%	-54%	-18%	-84%
Tax	\$m	-	-	-	-	-	EBITDA / Interest	x	-124.2x	-36.5x	nm	-31.1x	-130.2x
Net interest	\$m	0.1	(0.5)	-	1.4	0.7							
Other	\$m	0.0	0.2	2.8	-	-							
Operating cash flow	\$m	19.0	19.5	31.5	45.3	99.2							
INVESTING CASHFLOW						Ore Reserves							
Property, plant and equipment	\$m	(3.7)	(2.7)	(12.9)	(34.1)	(15.7)	Halls Creek Project						
Mine development	\$m	(20.2)	(15.9)	(8.6)	(22.8)	(10.5)	Mineral Resources						
Exploration & evaluation	\$m	(2.1)	(18.4)	(24.5)	(6.0)	(2.0)	Measured						
Other	\$m	(4.1)	(7.5)	(5.0)	(10.0)	-	0.404						
Investing cash flow	\$m	(30.2)	(44.5)	(51.0)	(72.9)	(28.1)	Indicated						
Free Cash Flow	\$m	(11.2)	(25.0)	(19.6)	(27.6)	71.1	0.779						
							Inferred						
							0.420						
							Total						
							1.603						
							6.6						
							340.0						
FINANCING CASHFLOW						Norseman Gold Project (100% basis)							
Share issues/(buy-backs)	\$m	57.0	-	55.5	-	-	Mineral Resources						
Debt proceeds	\$m	-	-	-	-	-	Measured						
Debt repayments	\$m	(0.9)	(6.2)	-	-	-	4.572						
Dividends	\$m	-	-	-	-	-	Indicated						
Other	\$m	(3.0)	(0.0)	(2.8)	-	-	13.871						
Financing cash flow	\$m	53.1	(6.2)	52.7	-	-	Inferred						
Change in cash	\$m	41.9	(31.2)	33.2	(27.6)	71.1	16.570						
							Total						
							35.013						
							3.8						
							4,241.0						
BALANCE SHEET						ASSUMPTIONS - Prices							
ASSETS						Year ending June (avg)							
Cash & short term investments	\$m	53.7	22.5	55.6	28.1	99.2	Gold	US\$/oz	\$1,267	\$1,570	\$1,861	\$1,888	\$1,850
Accounts receivable	\$m	1.3	1.1	4.5	5.2	10.0	Gold	A\$/oz	\$1,772	\$2,342	\$2,510	\$2,586	\$2,552
Property, plant & equipment	\$m	20.5	31.6	35.9	60.0	57.6	AUD:USD	A\$/US\$	0.72	0.67	0.74	0.73	0.73
Mine development expenditure	\$m	37.0	18.9	19.0	31.7	24.0							
Exploration & evaluation	\$m	4.1	83.9	104.2	105.1	98.1							
Other	\$m	5.1	4.4	9.4	19.4	19.4							
Total assets	\$m	121.7	162.4	228.5	249.4	308.1							
LIABILITIES						ASSUMPTIONS - Production & costs							
Accounts payable	\$m	13.7	16.1	13.7	15.0	27.0	Year ending June						
Income tax payable	\$m	-	-	-	-	8.1	Halls Creek						
Borrowings	\$m	0.8	0.5	0.5	0.5	0.5	Production						
Unearned income	\$m	-	-	-	-	-	koz						
Other	\$m	6.8	56.2	56.2	56.2	56.2	43.0						
Total liabilities	\$m	21.3	72.9	70.4	71.8	91.8	All-in-Sustaining-Costs (AISC)						
SHAREHOLDER'S EQUITY						Norseman (PNR attr.)							
Share capital	\$m	229.0	246.5	302.0	302.0	302.0	Production						
Reserves	\$m	7.2	8.0	8.0	8.0	8.0	koz						
Retained earnings	\$m	(135.8)	(165.0)	(151.9)	(132.3)	(93.7)	All-in-Sustaining-Costs (AISC)						
Total equity	\$m	100.4	89.5	158.1	177.7	216.3	A\$/oz						
Weighted average shares	m	868.8	1,173.5	1,292.2	1,408.4	1,408.4	43.0						
							A\$/oz						
							\$1,439						
							\$1,739						
							\$1,547						
							\$1,578						
							\$1,558						
							-						
							-						
							5.0						
							43.4						
							Total						
							43.0						
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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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