

Spec. buy

Current Price \$0.25
Target Price \$0.30

Code: **PNR**
Sector: **Materials**

* All figures in AUD unless stated otherwise

Shares on Issue (M): **1,408**
Market Cap (\$M): **352**
Net cash (\$M June 2020, post raise) **65**
Enterprise value (\$M): **287**

52 wk High/Low (ps): **\$0.28** **\$0.07**
12m av. daily vol. (Mshs): **2.88**

Key Metrics

	FY22e	FY23e	FY24e
P/E (x)	31.5	13.2	9.3
EV/EBITDA (x)	13.4	4.4	3.2

Financials:

	FY22e	FY23e	FY24e
Revenue (\$M)	89	209	248
EBIT (\$M)	11	27	38
NPAT (A\$M)	11	27	38

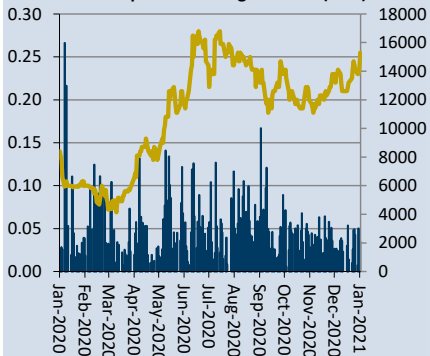
Net assets (\$M) 167 185 193
Op CF (\$M) 21 65 89

Per share data:

	FY22e	FY23e	FY24e
EPS (c)	0.8	1.9	2.7
Dividend (cps)	0.0	0.0	0.0
Yield (%)	-	-	-
CF/Share (cps)	1.5	4.6	6.3

Prod (koz Au) 36 122 138

Share Price Graph and trading volumes (msh)



Please refer to important disclosures at end of the report (from page 7)

Friday, 15 January 2021

Pantoro Limited (PNR)

Backing the field

John Macdonald

Quick Read

In for a successful restart leading to realisation of Norseman's long term potential.

Main points

Kick start to proceedings: Pantoro (50% JV partner and operator) delivered a Norseman feasibility study in October 2020, considering a new 1Mtpa CIL treatment plant. The plan is based mainly on pits and underground mines at Scotia and OK. Reserves total 602koz. Pantoro's aims are to re-establish a +100kozspa operation at Norseman with minimal capital and delay, fund exploration and development of the rest of the field from cash flows, and deliver surpluses after exploration, development and corporate expenses. Engineering contracts are up for award in late January 2021.

The Norseman restart plan shows good returns on the estimated \$89m pre-production outlay. Subsequent drilling at the principal mine area within the restart plan, Scotia, has promoted several new pit prospects, requiring further drillout with three rigs onsite at Scotia through to mid-2021.

Rich reef hunt: Most of the Norseman project's value lies in the potential for discovery of new Mainfield and Harlequin type reefs, either beneath the workings or under lake sediment cover. Norseman produced 5.5Mozs in a continuous run from 1936 to 2006, mainly from free milling quartz reefs mined at +10g/t average head grades. The prospective depths are not demanding, and exploration stalled from the late 90s until Pantoro's entry in 2019. Three Mainfield targets; Butterfly, Crown South and Mt Barker, have been selected for drilling in 2021.

Halls Creek's resurgence: Pantoro has adjusted its approach to Halls Creek, opting for cash flow generation over maximising gold production. In November 2020 the Company reported the discovery of high grade cross lodes at Wagtail North, similar to the Nicolsons lodes that underpinned much of the project's earlier successes. Mined grades rebounded to 6.4 g/t in the December 2020 quarter. FY21 production guidance is set at 36koz. Argonaut forecasts \$18M surplus from Halls Creek in CY21.

Recommendation

The breadth of opportunity at Norseman requires judgement on the part of the operator, to match limited budgets with both drilling and development targets. Pantoro's plan to start modest and build up the balance sheet while advancing higher cost/reward prospects, seems to us, one to be a part of. We value Pantoro at 30cps, based on the restart plan and a subjective exploration value, and suspect that a well-managed Norseman will show higher value in the longer term. Speculative buy ahead of further exploration progress.

Pantoro Ltd

Equities Research

Analyst: John Macdonald

Recommendation **Speculative buy**
 Current Price **\$0.25**
 Valuation **\$0.30**

Sector **Metals & Mining**
 Issued Capital (M) **1,408**
 Market Cap (M) **\$352**
 Friday, 15 January 2021

Profit & loss (\$M) 30 June	2021E	2022E	2023E	2024E
Sales Revenue	94	89	209	248
+ Other income/forwards	0	0	0	0
- Operating costs	-55	-55	-126	-141
- Royalties	-4	-4	-8	-10
- Corporate & administration	-9	-9	-9	-9
Total Costs	-67	-67	-144	-160
EBITDA	26	21	65	89
- margin	28%	24%	31%	36%
- D&A	-9	-10	-39	-51
EBIT	18	11	27	38
+ Finance Income/Expense	0	0	0	0
PBT	18	11	27	38
- Tax expense	-4	0	0	0
NPAT	15	11	27	38

Cash flow (\$M)	2021E	2022E	2023E	2024E
+ Revenue	94	89	209	248
- Cash costs	-67	-67	-144	-160
- Forwards	0	0	0	0
-Tax payments	0	0	0	0
+ Interest & other	0	0	0	0
Operating activities	26	21	65	89
- Property, plant, mine devel.	-31	-78	-33	-52
- Exploration	-5	-2	-8	-9
Investment activities	-36	-80	-41	-61
+ Borrowings	0	20	-12	-8
- Dividends	0	0	0	0
+ Equity	56	2	2	0
Financing activities	56	22	-10	-8
Cash change	46	-37	14	20

Balance sheet	2021E	2022E	2023E	2024E
Cash & bullion	68	31	45	65
Other Current Assets	5	5	5	5
Total current assets	73	36	50	70
Property, plant & equip.	136	204	199	200
Investments/other	0	0	0	0
Total non-curr. assets	136	204	199	200
Total assets	209	240	249	270
Trade payables	11	9	19	22
Lease liabilities	0	12	8	0
Deferred consideration	11	46	34	46
Total curr. liabilities	22	55	53	67
Lease liabilities, provisions	0	8	0	0
Deferred consideration	10	10	10	10
Total non-curr. liabil.	10	18	10	10
Total liabilities	32	73	63	77
Net assets	177	167	185	193

Year to June 30	2021	2022	2023	2024
Halls Creek				
Throughput (Mt)	0.2	0.2	0.2	0.2
Head grade (g/t)	5.3	5.4	5.4	5.4
Gold prodn (kcozs)	36	36	36	36
Cost per milled tonne (A\$/t)	244	250	250	250
All in sustaining costs (A\$/oz)	1620	1625	1624	1624
Growth capital (\$M)	4	0	0	0
Norseman				
Ore processed (Mt)	0.0		1.0	1.1
Head grade (g/t)	0.00		2.92	3.12
Gold prodn (kcozs)	0		86	102
Cost per milled tonne (A\$/t)	0		128	124
All in sustaining costs (A\$/oz)	0		1543	1425
Growth capital (\$M)	11	73	29	48
Group				
Gold production	36	36	122	138
AISC	1620	1625	1567	1477
Growth capital (\$M)	15	73	29	48

Price assumptions	2021E	2022E	2023E	2024E
AUDUSD	0.72	0.72	0.72	0.72
Gold	1865	1775	1750	1750
Gold	2588	2465	2431	2431

Financial ratios		2021E	2022E	2023E	2024E
GCFPS	Ac	1.9	1.5	4.6	6.3
CFR	X	13.5	16.6	5.4	4.0
EPS	Ac	1.0	0.8	1.9	2.7
PER	X	24.2	31.5	13.2	9.3
DPS	Ac	0.0	0.0	0.0	0.0
Yield	%	0.0%	0.0%	0.0%	0.0%
Interest cover	x	0.0	75.4	172.8	1166.0
ROCE	%	13%	6%	13%	19%
ROE	%	10%	7%	14%	20%
Gearing	%	0%	5%	0%	0%

Shares		2021E	2022E	2023E	2024E
New shs issued/exerciseable	M	233	10	11	0
Average issue price	\$/sh	0.24	0.18	0.20	0.00
Ordinary shares - end	M	1408	1418	1429	1429
Diluted shares - end	M	1429	1429	1429	1429

Hedging		2021E	2022E	2023E	2024E
Hedged sales	kcozs	0	0	0	0
Hedged price	A\$/oz	0	0	0	0
Hedge gain(loss)	\$M	0	0	0	0
Hedged %		0%	0%	0%	0%
Received price	A\$/oz	2588	2465	2431	2431

Valuation summary	A\$M	A\$/sh
50% Norseman after tax 7% DR	108	0.08
100% Halls Creek after tax 7% DR	82	0.06
Exploration, all sites	190	0.13
Corporate overheads	-35	-0.02
Cash and bullion	65	0.05
Debt	0	0.00
Deferred consideration	-10	-0.01
Tax benefit	20	0.01
Hedging	0	0.00
Option/equity dilution	0	0.00
NAV	420	0.30

Directors, management	
Wayne Zekulich	Non-Executive Chairman
Paul Cmrlec	Managing Director
Scott Huffadine	Operations Director
Kyle Edwards	Non-Executive Director
Fiona Van Maanen	Non-Executive Director

Top shareholders	M shs	%
Robmar Investments Pty Ltd	209	14.8
Tulla Resources Group Pty Ltd	100	7.1

Reserves & resources June '20	Mt	g/t Au	Koz
HALLS CREEK RESOURCE	1.6	6.6	342
Measured	0.4	8.4	108
Indicated	0.8	6.4	163
Inferred	0.4	5.3	72
INCLUDES TOTAL RESERVE	1.0	4.6	151
Halls Creek	1.0	4.6	151
NORSEMAN RESOURCE (100%)	35.5	3.7	4,225
Measured	4.6	1.6	237
Indicated	12.7	3.7	1,507
Inferred	18.2	4.2	2,481

Argonaut model June '20	Mt	g/t Au	Koz
TOTAL INVENTORY			
Norseman underground (100%)	1.5	4.9	236
Norseman pit (100%)	4.3	2.7	373
Halls Creek underground	1.4	5.4	240

Norseman

The Norseman Gold project is responsible for 5.5Mozs of past gold production, mostly from quartz veins exploited over a 10km line of lode from Mainfield through North Royal and Harlequin between 1935 and 2006 – a period in which it was Australia’s only continuously operating gold field. Pantoro Ltd (operator and 50% owner) entered the Norseman joint venture in May 2019, by agreeing among other terms, to sole fund \$50M expenditure on the project. At the time of acquisition estimated resources amounted to 4.4Mozs within 35 separate deposits.

Pantoro has selected six mining areas within the Norseman portfolio to form part of a restart plan designed around the strategy of re-establishing 1Mtpa aggregate ore stream and CIL processing facilities in short order for minimal capital outlay. Infill drilling and step-out drilling in FY20 were confined to the chosen prospects. In October 2020 Pantoro completed a “phase one, Norseman restart” feasibility study.

The phase one feasibility study (October 2020)

The restart feasibility study is based on six open pit plans and 3 underground mine plans.

1. Scotia. A series of deposits over 2km strike, 45km south of Norseman. Scotia represents the largest estimated resource (271kcozs indicated and 176kcozs inferred) within the restart proposal. Open pit ore from Scotia will provide most of the mill feed in the first three years of operation. Pantoro drilled 158 RC holes (19,000m) at Scotia in FY20, discovering a new zone at Panda and extending the Green Lantern deposit. More drilling is planned in FY21 with the aim of doubling the pit inventory at Scotia.
2. Pantoro plans to bring the OK underground mine back into production as the principal source of underground ore prior to Scotia’s underground development. A vent rise and minor dewatering will precede access to reserve blocks below existing workings. In the phase one Norseman restart, underground ore will come from OK for the first two years, providing 200-250ktpa at 5.3 g/t, at full capacity.
3. Together with Scotia, planned pits at Cobbler, Slippers, Gladstone and Maybell make up total pit reserves of 4Mt at 2.7 g/t (370kcozs). Stockpile reserves are 4Mt at 0.8 g/t (100kcozs).
4. OK, Scotia and St Pats underground plans are backed by total reserves of 790kt at 5.3 g/t (135kcozs).

Pre-production capital costs are estimated at \$89m, including \$43m for 1.0Mtpa CIL process plant.

Pantoro estimates total costs (mining, processing, administration, royalties, sustaining capital and other capital, excluding pre-production capital), will peak at A\$210m in the fourth year of operation; equivalent to the revenue from 80kcozs at A\$2600/oz gold price.

Other Norseman prospects

Most of the value of the Norseman project lies outside the confines of the start-up plan outlined in the restart feasibility study. In small company hands since 2002, Norseman is the last of Western Australia’s historic, prolific gold fields to be redeveloped beyond the limits reached prior to the turn of the millennium. Mainfield has historically produced more than half of the 6Mozs produced at Norseman, from ore averaging 13 g/t. The Mainfield workings extend to a maximum depth of 670m below surface. Harlequin

(800kcozs past production) is a 1990s discovery under lake cover that kicked off an unfinished search on the western side of the field. Pantoro intersected 8m at 67 g/t Au in July 2020 from 79m down hole at the Sailfish prospect.

Announcement 29 October

- Pantoro reported drill results from 30 RC holes at Green Lantern (Scotia mining centre), Norseman (PNR 50%).
- Assayed intervals include 41m at 1.9 g/t from 14m down hole and 29m at 2.5 g/t from 96m down hole (separate holes).
- The drilling filled out the northern half of Green Lantern's 400m strike length.
- Scotia has an estimated resource of 4.1Mt at 3.4 g/t (460kcozs).
- Pantoro plans to continue drilling at Scotia for 6-12 months more

Announcement 23 November

- Pantoro reported assays from three diamond core holes at Sailfish, Norseman (PNR 50%)
- SFDD_011 intersected 1.6m at 61.8 g/t from 98m down hole
- SFDD_009 intersected 0.6m at 38.7 g/t from 89m down hole.
- Two quartz reefs are interpreted at Sailfish, with high grade intercepts spanning 200m
- Pantoro has completed 12 holes at Sailfish, confirming the Sailfish discovery made under lake sediments in the early 1990s
- A larger follow up program started within a week.

Halls Creek

In 2019 Pantoro began to take the production pressure off the Halls Creek project, focussing on cash flow generation and exploration, rather than maximising production. In November underground drilling and development results from the Wagtail underground mine confirmed the discovery of a north striking lode in the hangingwall of Rowdies lode, and defined a link lode called REV. Intersections from underground include 18m at 39.0 g/t and 15m at 14.7 g/t, in separate holes drilled down dip into the lode junctures. Face sampling of development on the REV lode averaged 0.6m width at 22 g/t. REV is defined over 50m strike and over 100m vertical depth. PNR compares REV to similar splay lodes at Nicolsons that underpinned much of the project's earlier successes.

December 2020 quarterly gold production from Halls Creek was 10.1kcozs, up from 8.0kcozs the previous quarter. Average mined grade improved to 6.4 g/t. Development of the high grade splay lode at Wagtail was the focus of production. Pantoro indicated \$7.6M cash flow from Halls Creek in the quarter, effectively funding Norseman's outlays of \$7M.

Pantoro's guidance for the remainder of FY21 is for 9kcozs in each quarter, and \$3-6M net cash flows at \$2600/oz.

More selective mining, exploration success at Wagtail and a higher gold price, have all put Halls Creek in its best position since 2017.

Restart forecasts

Table 1. Norseman Gold Project. Argonaut production and cost forecasts – restart plan only.

Year to June 30	2022	2023	2024	2025	2026	2027
Norseman						
Ore processed (Mt)		1.0	1.1	1.2	1.2	1.2
Head grade (g/t)		2.92	3.12	3.30	3.30	3.32
Met. recovery		95%	95%	95%	0.95	0.95
Norseman gold prodn (kozs)		86	102	120	120	118
Cost per milled tonne (A\$/t)		128	124	118	119	121
Cash costs pre royalty (A\$/oz)		1527	1396	1262	1276	1290
All in sustaining costs (A\$/oz)		1624	1493	1359	1373	1387
Growth capital (\$M)	73	29	48	28	57	0
CAIC (A\$/oz)		2163	2118	1708	1955	1427
Price assumptions						
AUDUSD	0.72	0.72	0.72	0.72	0.72	0.72
Gold	1775	1750	1750	1750	1750	1750
Gold	2465	2431	2431	2431	2431	2431

Source: Argonaut Research

Valuation

Argonaut's valuation is based on discounted cash flow valuations of the Halls Creek and Norseman projects, informal estimates of exploration assets value and nominal assessment of Pantoro's other assets and liabilities, as at December 2020.

An estimate of the NPV of future corporate overheads is included in the valuation.

Argonaut values the Norseman gold project using the inventory and cost inputs set out in the October 2020 feasibility study to generate an NPV. The schedules in our model may differ from Pantoro's. The project valuation is based on the after tax NPV of modelled cash flows at a 7% real, after tax discount rate, plus a nominal estimate of the value of exploration prospects outside of the restart plan.

- NPV of the restart plan of \$216M (100% basis) at a 7% real, after tax discount rate and our long-term gold price assumption of A\$2,430/oz (equivalent to Pantoro's feasibility study NPV estimate of \$384M pre-tax, at a A\$2,600/oz gold price).
- Nominal exploration value of \$340M (100% basis) is assigned to Norseman, based on belief in the prospectivity of the field and what a willing buyer might pay in cash for the project.

For Halls Creek, we model an underground inventory of 240kozs as at June 2020, which is 130kozs higher than the 111kozs estimated in reserve by Pantoro at the same date. Subsequent drilling success and mine progress has discovered new lodes and extended reserve positions. Progressive underground advance will further enable access for extension drilling. Halls Creek exploration value of \$15M is included for all prospects outside the modelled inventory.

Table 2. Argonaut valuation of Pantoro Limited.

Valuation summary	A\$M	A\$/sh
50% Norseman after tax 7% DR	108	0.08
100% Halls Creek after tax 7% DR	82	0.06
Exploration, all sites	190	0.13
Corporate overheads	-35	-0.02
Cash and bullion	65	0.05
Debt	0	0.00
Deferred consideration	-10	-0.01
Tax benefit	20	0.01
Hedging	0	0.00
Option/equity dilution	0	0.00
NAV	420	0.30

Source: Argonaut Research

Risks to valuation

Exploration and development success

A large proportion of our valuation belongs to prospects that are not subject to any development studies. Costs of exploration and development may be high for extended periods. The valuation assumes that future exploration and investments achieve acceptable returns. Subjective value is attributed to exploration assets.

Development and operating costs.

Cost forecasts are based on feasibility estimates at Norseman and demonstrated costs at Halls Creek.

Mineable inventory

Argonaut's estimates of mineable inventories at Halls Creek are based on incomplete information, and subjective calls on future exploration findings.

Gold price

Our estimates of Pantoro cash flows and exploration values are sensitive to the gold price. Each 10% change in the Australian dollar gold price changes our valuation by 35%.

Joint venture

The Norseman JV is half owned by private interests with separate funding obligations and arrangements to those of Pantoro.

RESEARCH:

Ian Christie | Head of Research
+61 8 9224 6872 ichristie@argonaut.com

John Macdonald | Director, Metals & Mining Research
+61 8 9224 6835 jmacdonald@argonaut.com

George Ross | Analyst, Metals & Mining Research
+61 8 9224 6840 georger@argonaut.com

Royce Haese | Analyst, Metals & Mining Research
+61 8 9224 6869 rhaese@argonaut.com

INSTITUTIONAL SALES - PERTH:

Chris Wippl | Executive Director, Head of Institutional Sales
+61 8 9224 6875 cwippl@argonaut.com

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

John Santul | Consultant, Sales & Research
+61 8 9224 6859 jsantul@argonaut.com

Josh Welch | Institutional Dealer
+61 8 9224 6868 jwelch@argonaut.com

George Ogilvie | Institutional Dealer
+61 8 9224 6871 gogilvie@argonaut.com

INSTITUTIONAL SALES – HONG KONG:

Damian Rooney | Director Institutional Sales
+61 8 9224 6862 drooney@argonaut.com

CORPORATE AND PRIVATE CLIENT SALES:

Glen Colgan | Managing Director, Desk Manager
+61 8 9224 6874 gcolgan@argonaut.com

Kevin Johnson | Executive Director, Corporate Stockbroking
+61 8 9224 6880 kjohnson@argonaut.com

James McGlew | Executive Director, Corporate Stockbroking
+61 8 9224 6866 jmcglew@argonaut.com

Geoff Barnesby-Johnson | Senior Dealer, Corporate Stockbroking
+61 8 9224 6854 bj@argonaut.com

Ben Willoughby | Senior Dealer, Corporate Stockbroking
+61 8 9224 6876 bwilloughby@argonaut.com

Philip Grant | Senior Dealer, Corporate Stockbroking
+61 8 9224 6834, pgrant@argonaut.com

David Keogh | Senior Dealer, Corporate Stockbroking
+61 8 9224 6852, dkeogh@argonaut.com

Rob Healy | Dealer, Private Clients
+61 8 9224 6873, rhealy@argonaut.com

Cameron Prunster | Dealer, Private Clients
+61 8 9224 6853 cprunster@argonaut.com

James Massey | Dealer, Private Clients
+61 8 9224 6849 jmassey@argonaut.com

Chris Hill | Dealer, Private Clients
+61 8 9224 6830, chill@argonaut.com

Harry Massey | Dealer, Private Clients
+61 8 9224 6829, hmassey@argonaut.com

Jonas Dorling | Assoc. Dealer / Prov. Fin. Advisor, Private Clients
+61 8 9224 6837, jdorling@argonaut.com

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