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# Pantoro Limited (PNR)

## Good progress at Norseman

### Recommendation

**Hold** (Buy)

Price

**\$0.35**

Target (12 months)

**\$0.36** (unchanged)

### GICS Sector

Materials

### Expected Return

Capital growth	2.9%
Dividend yield	0.0%
Total expected return	2.9%

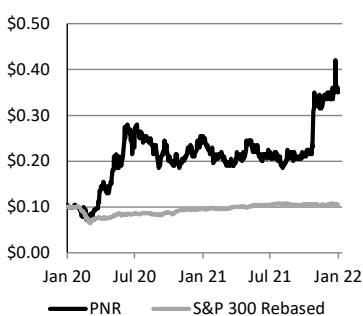
### Company Data & Ratios

Enterprise value	\$479.2m
Market cap	\$493.3m
Issued capital	1,409.5m
Free float	78%
Avg. daily val. (52wk)	\$573,000
12 month price range	\$0.18-\$0.425

### Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	0.34	0.22	0.26
Absolute (%)	2.9	59.1	37.3
Rel market (%)	2.4	59.4	27.6

### Absolute Price



SOURCE: IRESS

### December 2021 quarterly report

PNR has reported December quarter 2021 production of 7.4koz gold at All-In-Sustaining-Costs (AISC) of A\$1,906/oz (vs BPe. 8.8koz gold at AISC A\$1,480/oz). The result missed our forecasts and AISC were above the upper end of PNR's guidance range of A\$1,550-\$1,750/oz. Logistical and labour issues resulting from COVID-19 restrictions had a material impact on operational performance during the quarter. As a result, PNR reported net cash flow from the Halls Creek Operations of \$4.2m for 1HFY22, implying a net cash outflow in the December quarter. The strong performance in the September quarter meant that PNR met its 1HFY22 guidance range. PNR's cash and gold balance at end December was \$44.1m (\$34.6m qoq), after funding \$14.5m of development costs at the NGP and drawing down \$30.0m from its debt facility with GCI during the quarter. PNR remains well funded to meet its share of remaining CAPEX at Norseman, which we estimate to be ~A\$20-\$25m.

### Norseman underway

Construction at Norseman commenced in the first week of October 2021. Works have progressed on schedule and first production remains targeted for August 2022. Earthworks, mill foundations and CIL tank construction all advanced well during the quarter. Tenders were received for underground and open-pit mining contracts and both are expected to be awarded during the current quarter. Mobilisation to site and commencement of mining works are targeted for the June 2022 quarter and this will mark a major milestone.

### Investment thesis – Hold, TP \$0.36/sh (from Buy, \$0.36/sh)

We lower our forecast earnings for FY22 by 18% on higher costs and lower production. Earnings for FY23 are effectively unchanged. The increase to our exploration valuation offsets the impact of lower earnings at Halls Creek and our NPV-based sum-of-the-parts valuation is unchanged at \$0.36/sh. We lower our recommendation to Hold from Buy, on recent share price appreciation and in conformity with our recommendation structure.

### Earnings Forecast

Year end 30 June	2021a	2022e	2023e	2024e
Sales (A\$m)	88	87	175	233
EBITDA (A\$m)	34	39	83	117
NPAT (reported) (A\$m)	12	14	40	55
NPAT (adjusted) (A\$m)	12	14	40	55
EPS (adjusted) (cps)	0.9	1.0	2.9	3.9
EPS growth (%)	nm	12%	191%	38%
PER (x)	40.1	35.7	12.3	8.9
FCF Yield (%)	-4%	-7%	12%	18%
EV/EBITDA (x)	14.0	12.4	5.8	4.1
Dividend (cps)	-	-	-	-
Yield (%)	0%	0%	0%	0%
Franking (%)	0%	0%	0%	0%
ROE (%)	10%	8%	21%	23%

SOURCE: BELL POTTER SECURITIES ESTIMATES

# Good progress at Norseman

## December 2021 quarterly report

PNR has reported December quarter 2021 production of 7.4koz gold at All-In-Sustaining-Costs (AISC) of A\$1,906/oz (vs BPe. 8.8koz gold at AISC A\$1,480/oz). The result missed our forecasts and AISC were above the upper end of PNR's guidance range of A\$1,550-\$1,750/oz. Logistical and labour issues resulting from COVID-19 restrictions had a material impact on operational performance during the quarter. A drop in mined tonnes and grade (to 40kt @ 5.1g/t Au from 46kt @ 6.0g/t Au qoq) necessitated the drawing down of lower grade stockpiled ore to supplement the mill feed. While this maintained mill throughput at >60kt the mill head grade dropped ~22% qoq.

As a result, PNR reported net cash flow from the Halls Creek Operations of \$4.2m for 1HFY22. This included \$4.6m generated in the September quarter, implying a net cash outflow of \$0.4m for the December quarter. The volatility in net cash flow is to be expected given the nature of the Halls Creek operations and the strong performance in the September quarter meant that PNR met its 1HFY22 guidance range.

PNR's cash and gold balance at end December was \$44.1m (from \$34.6m qoq), after funding \$14.5m of development costs at the NGP and drawing down \$30.0m from its debt facility with GCI during the quarter. PNR remains well funded to meet its share of remaining CAPEX at Norseman, which we estimate to be ~A\$20-\$25m.

PNR has provided guidance for the March 2022 and June 2022 quarters as follows:

**Table 1 - Halls Creek production and cost guidance**

	Halls Creek Operations	
	Q3 FY22 Guidance	Q4 FY22 Guidance
Production (oz Au)	8,300 ± 10%	9,000 ± 10%
Revenue @ \$2,500/oz* (\$ million)	\$19 - \$23	\$20 - \$24
C1 (\$/oz)	\$1,300 - \$1,550	\$1,300 - \$1,350
AISC (\$/oz)*	\$1,550 - \$1,1850	\$1,550 - \$1,750
Major Project Capital (\$ million)	\$1.5 - \$2.0	\$1.5 - \$2.0
Exploration (\$ million)	\$1.0	\$3.0
Net Cashflow (\$ million) @ \$2,500/oz	\$1.0 - \$4.5	\$1.5 - \$4.5

SOURCE: COMPANY DATA

Guidance for the March quarter 2022 has been lowered from 9,000±10% to 8,300oz±10% and the upper end of AISC guidance increased from A\$1,750/oz to A\$1,850/oz. June 2022 quarter forecasts remain in-line with historic guidance levels. 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**

	Dec-20 Actual	Mar-21 Actual	Jun-21 Actual	Sep-21 Actual	Dec-21 Actual	Dec-21 BP est.	Variance % qoq	Variance % BP est.
<b>Mining</b>								
Ore mined (t)	49,172	44,220	47,954	46,067	40,350	50,000	-12%	-19%
grade (g/t Au)	6.4	5.7	5.7	6.0	5.1	5.5	-16%	-8%
Contained gold (oz Au)	10,039	8,061	8,819	8,901	6,551	8,841	-26%	-26%
<b>Processing</b>								
Ore milled (t)	57,263	55,322	58,826	60,646	61,026	56,000	1%	9%
Head grade (g/t Au)	5.8	5.0	5.0	5.1	4.0	5.2	-22%	-24%
Recovery (%)	94.8%	94.4%	94.3%	95.5%	95.6%	94.0%	0.2%	1.6%
Gold produced (oz Au)	10,143	8,429	8,880	9,473	7,412	8,801	-22%	-16%
<b>Costs</b>								
Cash costs (A\$/oz)	\$1.188	\$1.398	\$1.329	\$1.217	\$1.533	\$1.219	26%	26%
AISC (A\$/oz)	\$1,435	\$1,644	\$1,570	\$1,435	\$1,906	\$1,480	33%	29%

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

## Norseman underway

Construction at Norseman commenced immediately after project approvals were received in the first week of October 2021. Works have progressed on schedule and first production remains targeted for August 2022. Earthworks, mill foundations and CIL tank construction all advanced well during the quarter. Tenders were received for underground and open-pit mining contracts and both are expected to be awarded during the current quarter. Mobilisation to site and commencement of mining works are targeted for the June 2022 quarter and this will mark a major milestone.

A major Resource drill-out program continued during the December 2021 quarter, with a key focus being the Scotia Mining Centre, for which Mineral Resource and Ore Reserve updates are planned for the March 2022 quarter. The accelerated exploration program has been enabled by the draw down of a \$30m debt facility

Figure 1 - Construction progress at Norseman



SOURCE: COMPANY DATA

## PGE exploration at Halls Creek – the Lamboo deposit

Drilling continued at the Lamboo PGE deposit. Previously reported highlight intersections included 100m @ 1.10g/t 3E; 120m @ 0.96g/t 3E; 118m @ 0.90g/t 3E; and 46m @ 1.11g/t 3E (all intersections from surface). The Lamboo PGE Deposit is located approximately 5km south of PNR's Nicolsons Gold Mine within the Halls Creek Operations. PNR holds the view the broad intercepts indicating potential for large, bulk tonnage styles of Pt+Pd+Au mineralisation. PNR has identified a potential structural host across +20km of potential mineralised strike remain opportunities for PNR. A follow up program of 2,700m commenced late in the quarter and a three hole drill fence was drilled 3km north. The best result from this was 30 m @ 1.03g/t Pt +Pd +Au(3E); 0.54% Ni and 0.033% Co from 3m. These are encouraging results and have generated significant targets for further drilling.

## Changes to our forecasts and valuation

Following the release of the December 2021 quarterly, other than updating for the reported production and cost results, we have made the following changes to our modelled assumptions:

- Lowered our production forecast for 2HFY22, reflecting PNR's updated guidance and the potential for further disruptions to labour and logistics in early CY22 due to COVID-19 infection rates and restrictions;
- Marginally lower our forecast mill head grades, reflecting the lower than plan mined grades of the December 2021 quarter;
- Increased our exploration valuation to reflect current market valuations of Enterprise Value per gold Resource ounce, at ~\$110/oz;
- Updated for PNR's latest cash position, listed investments valuation and capital structure; and
- Rolled our model forward.

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

Table 3 - Changes to earnings estimates									
Year ending 30 June	Previous			New			Change		
	2022e	2023e	2024e	2022e	2023e	2024e	2022e	2023e	2024e
<b>Prices &amp; currency</b>									
Gold (US\$/oz)	1,823	1,850	1,900	1,823	1,850	1,900	0%	0%	0%
US\$/A\$	0.73	0.73	0.73	0.73	0.73	0.73	0%	0%	0%
Gold (A\$/oz)	2,485	2,534	2,603	2,485	2,534	2,603	0%	0%	0%
<b>Production &amp; costs</b>									
Gold produced (koz)	35.9	69.9	89.9	34.4	69.1	89.4	-4%	-1%	-1%
AISC (A\$/oz)	1,475	1,412	1,330	1,570	1,416	1,320	6%	0%	-1%
<b>Earnings</b>									
Revenue (A\$m)	89	177	234	87	175	233	-3%	-1%	-1%
EBITDA (A\$m)	41	83	116	39	83	117	-5%	0%	0%
EBIT (A\$m)	19	48	77	16	47	78	-16%	-1%	0%
NPAT (underlying) (A\$m)	17	40	55	13.8	40	55	-18%	1%	0%
NPAT (reported) (A\$m)	16.8	40	55	13.8	40	55	-18%	1%	0%
EPS (reported) (cps)	1.2	2.8	3.9	1.0	2.9	3.9	-18%	1%	0%
PER (x)	29.3	12.4	8.9	35.7	12.3	8.9	6.5	(0.1)	(0.0)
EPS growth (%)	37%	136%	39%	12%	191%	38%	-25%	55%	-1%
DPS (reported) (cps)	-	-	-	-	-	-	na	na	na
Yield	0%	0%	0%	0%	0%	0%	0%	0%	0%
NPV (\$/sh)	0.33	0.36	0.39	0.33	0.36	0.39	0%	1%	1%
Price Target (\$/sh)		0.36			0.36			0%	

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

We lower our forecast earnings for FY22 by 18% on higher costs and lower production. Earnings for FY23 are effectively unchanged. The increase to our exploration valuation offsets the impact of lower earnings at Halls Creek and our NPV-based valuation remains unchanged at \$0.36/sh. We lower our recommendation to Hold from Buy, on recent share price appreciation and in conformity with our recommendation structure.

## Upcoming catalysts

Upcoming catalysts for PNR include:

- Construction and development updates from the Norseman Gold Project (NGP). Adherence to budget and schedule will be a key objective in a market experiencing cost inflation and labour tightness. This includes the award of mining contracts in the current quarter, commencement of mining operations in the June

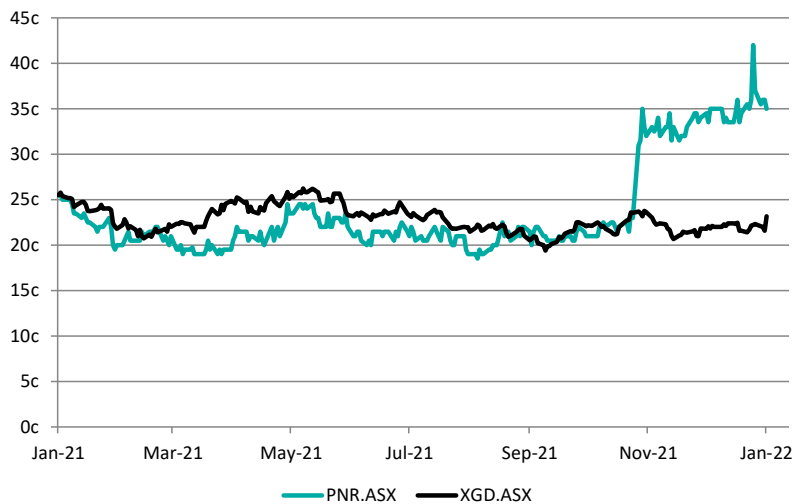
quarter of 2022 and the commencement of gold production in the September quarter of 2022;

- Ongoing infill and extension drilling results from the NGP, where a 150,000m drill program over FY21-FY22 has the objective of doubling the current mining inventory to ~1.2Moz. We anticipate an updated Resource in mid-CY22;
- The maintenance of production and costs at Halls Creek in-line with guidance. The maintenance of a consistent operational track record will be a de-risking factor and help PNR fund ongoing exploration and development costs at Norseman. The March quarter production report is due mid-April;
- Further underground drilling results from Halls Creek, where the Rowdies and Wagtail deposits are showing potential for mine life extensions;
- Ongoing drilling results and geological survey work at the Lamboo PGE discovery, where field work is expected to re-commence in CY22;
- 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 2 - PNR relative share price performance vs XGD**



SOURCE: BLOOMBERG AND BELL POTTER SECURITIES ESTIMATES

PNR’s relative performance is again showing outperformance compared with the ASX Gold Index over the last 12 months, with the key recent catalyst of the Lamboo PGE drilling. Other drivers have, in our view, been Halls Creek better meeting expectations and the good progress to development being executed at the Norseman Gold Project (NGP).

# 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 foundation asset. 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 ~35kozpa 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 is PNR's prime growth asset and covers over 1,000km<sup>2</sup> of tenements, the majority of which are granted Mining Leases. The NGP has a large, high grade gold Resource base totalling 4.5Moz grading 3.4g/t Au, including underground Resources of 2.1Moz grading 15.3g/t Au. With past production of >5.5Moz, established infrastructure including an operating power plant, sealed airstrip, road and rail access all neighbouring the Norseman township, it provides an excellent platform for exploration and future production growth.

## Investment thesis – Hold, TP \$0.36/sh (from Buy, \$0.36/sh)

We lower our forecast earnings for FY22 by 18% on higher costs and lower production. Earnings for FY23 are effectively unchanged. The increase to our exploration valuation offsets the impact of lower earnings at Halls Creek and our NPV-based sum-of-the-parts valuation remains unchanged at \$0.36/sh. We lower our recommendation to Hold from Buy, on recent share price appreciation and in conformity with our recommendation structure.

## 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 Halls Creek Project and the balance of the NGP which we currently value at ~A\$110/oz of gold contained in Resource. We also include valuation of PNR's listed investment holdings, a discounted cash flow estimate of corporate costs, adjust for PNR's net cash position and dilute our valuation for in-the-money options.

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

<b>Sum-of-the-parts (+12 month Target Price)</b>	<b>\$m</b>	<b>\$/sh</b>
Halls Creek (NPV10)	67.5	0.05
Norseman (PNR attr. NPV10)	195.2	0.14
Other exploration	255	0.18
Corporate overheads	(9.0)	(0.01)
Subtotal	508.7	0.36
Net cash (debt)	10.1	0.01
<b>Total (undiluted)</b>	<b>518.8</b>	<b>0.37</b>
Add options in the money (m)		64.8
Add cash	15.6	0.0
<b>Total (diluted)</b>	<b>534.4</b>	<b>0.36</b>

SOURCE: BELL POTTER ESTIMATES

With upside of 2.9% from the last closing share price to our target price, we lower our recommendation from Buy to Hold, 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.





**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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