

Pan African Resources

Q119 quarterly update

On track for 170koz in FY19

On 6 November, Pan African (PAF) announced that it had produced 37,729oz gold in Q119 (an annualised production rate of 150,916oz) and that it was confident of achieving its production guidance of c 170,000oz for FY19 (implying a steady state production rate of 44,090oz per quarter for the remaining three quarters of the year). This should be eminently achievable now that Elikhulu has reached its target throughput rate of 1Mt in October to produce c 145kg (4,600oz) gold per month.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/17	167.8	19.4	1.22	0.45	7.0	5.3
06/18	154.2	2.4	1.60	0.00	5.3	N/A
06/19e	160.1	31.8	1.09	0.47	7.8	5.5
06/20e	187.1	58.2	1.83	0.86	4.6	10.1

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items.

Barberton leads the charge

Barberton Mines produced 27,201oz in Q119 (annualised 108,804oz), of which 21,278oz (annualised 85,112oz) was from underground operations and 5,923oz (annualised 23,692oz) was from the Barberton Tailings Retreatment Project (BTRP). This compares with our full-year estimates of 84,641oz from underground sources and 20,000oz from the BTRP, ie Barberton is currently performing above our expectations. In contrast, the Evander Tailings Retreatment Project (ETRP) produced 3,819oz (15,276oz annualised) cf our expectation of 20,000oz for the full year – probably owing to a reduction in higher-grade material for processing from surface feedstocks (as in H218) – although this is more than made up for by 3,815oz (annualised 15,260oz) of mining and vamping from Evander underground's remnant high-grade stopes ahead of preparations for 8 Shaft pillar mining from Q319 (cf our prior expectation of zero production from Evander underground sources in FY19).

Valuation: c 100% price upside potential

Our previous headline absolute valuation of PAF was 12.50p from its five producing assets (including Elikhulu) and 17.01p once new projects and other assets are taken into account, plus the value of c 20.1m underground Witwatersrand ounces, which could lie anywhere in the range of 0.17–4.15p per share, depending on market conditions. While there is an upside risk to our forecasts in the light of PAF's operational update, for the moment, we have opted to leave them and our valuation unchanged (in part, in recognition of the recent strength of the rand), but will reassess both at the time of PAF's H119 results in February. In the meantime, if PAF's historical average price to normalised EPS ratio of 9.4x in the period FY10–18 is applied to our forecasts, its share price could be expected to climb to 10.2p in FY19 and 17.2p in FY20. It also remains cheaper than its South African- and London-listed gold mining peers on at least 91% of valuation measures on the basis of our forecasts, or 94% on the basis of consensus forecasts. Finally, based on our assumptions, its dividend yield is the ninth highest of the 64 precious metals companies expected to pay a dividend over the course of the next 12 months.

Metals & mining

12 November 2018

Price **8.53p**
Market cap **£191m**

ZAR18.3443/£, ZAR13.9358/US\$, US\$1.3159/£

 Net debt (£m) at end-June 2018 91.0
 excluding ZAR45.9m (£2.5m) of MC
 Mining shares (formerly Coal of Africa)

Shares in issue* 2,234.7m

*Effective 1,928.3m post-consolidation

Free float 86%

Code PAF

Primary exchange AIM/JSE

Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	0.3	11.0	(41.1)
Rel (local)	2.2	20.8	(38.0)
52-week high/low		15.8p	6.5p

Business description

Pan African Resources has four major producing or near-producing precious metals assets in South Africa: Barberton (target output 95koz Au pa), the Barberton Tailings Retreatment Project (20koz), the Evander Tailings Retreatment Project (10koz) and Elikhulu (55koz).

Next events

Last trading date re AGM 13 November 2018

AGM proxy deadline 16 November 2018

AGM 20 November 2018

H119 results February 2019

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Exhibit 1: Financial summary

	£'000s	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue		133,308	154,202	140,386	168,404	167,759	154,200	160,111	187,067
Cost of sales		(71,181)	(106,394)	(110,413)	(108,223)	(134,007)	(138,800)	(104,226)	(105,200)
Gross profit		62,127	47,808	29,973	60,181	33,752	15,400	55,885	81,867
EBITDA		53,276	44,165	28,448	57,381	32,417	14,800	54,491	79,237
Operating profit (before GW and except.)		47,278	34,142	18,110	46,925	21,924	3,800	41,334	66,156
Intangible amortisation		0	0	0	0	0	0	0	0
Exceptionals		7,232	(12)	(198)	(12,183)	(1,248)	(122,300)	(1,252)	(1,252)
Other		0	0	0	0	0	0	0	0
Operating profit		54,510	34,130	17,912	34,742	20,676	(118,500)	40,082	64,904
Net interest		197	(191)	(2,109)	(1,006)	(2,523)	(1,400)	(9,555)	(7,988)
Profit before tax (norm)		47,475	33,951	16,001	45,919	19,401	2,400	31,779	58,167
Profit before tax (FRS 3)		54,707	33,939	15,803	33,736	18,153	(119,900)	30,527	56,915
Tax		(12,133)	(7,155)	(4,133)	(8,234)	(243)	26,600	(10,774)	(22,793)
Profit after tax (norm)		35,342	26,796	11,868	37,685	19,158	29,000	21,004	35,374
Profit after tax (FRS 3)		42,574	26,785	11,670	25,502	17,910	(93,300)	19,753	34,122
Average number of shares outstanding (m)		1,619.8	1,827.2	1,830.4	1,811.4	1,564.3	1,809.2	1,928.3	1,928.3
EPS - normalised (p)		2.18	1.46	0.64	2.08	1.22	1.60	1.09	1.83
EPS - FRS 3 (p)		2.63	1.47	0.64	1.41	1.14	(5.16)	1.02	1.77
Dividend per share (p)		0.83	0.82	0.54	0.88	0.45	0.00	0.47	0.86
Gross margin (%)		46.6	31.0	21.4	35.7	20.1	10.0	34.9	43.8
EBITDA margin (%)		40.0	28.6	20.3	34.1	19.3	9.6	34.0	42.4
Operating margin (before GW and except.) (%)		35.5	22.1	12.9	27.9	13.1	2.5	25.8	35.4
BALANCE SHEET									
Fixed assets		249,316	223,425	220,150	230,676	273,635	245,100	256,840	253,124
Intangible assets		38,628	37,040	37,713	38,682	41,425	49,200	50,936	52,673
Tangible assets		209,490	185,376	181,533	190,725	224,687	192,800	202,803	197,352
Investments		1,199	1,010	905	1,269	7,523	3,100	3,100	3,100
Current assets		26,962	23,510	17,218	22,016	37,090	20,000	21,942	52,037
Stocks		6,596	5,341	3,503	4,399	7,583	2,700	5,344	6,244
Debtors		15,384	12,551	10,386	14,891	14,813	14,800	11,859	13,856
Cash		4,769	5,618	3,329	2,659	9,447	700	2,940	30,138
Current liabilities		(24,066)	(24,012)	(22,350)	(32,211)	(31,251)	(33,400)	(35,902)	(43,660)
Creditors		(23,202)	(19,257)	(17,301)	(25,230)	(27,105)	(28,200)	(30,702)	(38,460)
Short-term borrowings		(864)	(4,755)	(5,049)	(6,981)	(4,146)	(5,200)	(5,200)	(5,200)
Long-term liabilities		(80,004)	(63,528)	(67,850)	(69,506)	(62,893)	(115,900)	(116,298)	(117,329)
Long-term borrowings		(11,133)	(8,141)	(16,313)	(18,456)	(12,290)	(86,500)	(86,500)	(86,500)
Other long-term liabilities		(68,871)	(55,387)	(51,537)	(51,049)	(50,603)	(29,400)	(29,798)	(30,829)
Net assets		172,208	159,396	147,167	150,975	216,581	115,800	126,582	144,173
CASH FLOW									
Operating cash flow		61,618	45,996	26,423	47,130	29,945	(1,900)	47,068	75,285
Net Interest		314	(606)	(2,109)	(1,006)	(2,141)	(1,400)	(9,555)	(7,988)
Tax		(13,666)	(8,536)	(3,943)	(7,777)	(8,003)	0	(10,377)	(21,762)
Capex		(27,197)	(21,355)	(19,554)	(14,097)	(36,748)	(94,200)	(24,897)	(9,366)
Acquisitions/disposals		(96,006)	0	(760)	(30,999)	8,364	4,400	0	0
Financing		47,112	349	(235)	15,207	34,638	9,800	0	0
Dividends		0	(14,684)	(15,006)	(9,882)	(13,290)	(8,200)	0	(8,971)
Net cash flow		(27,826)	1,164	(15,184)	(1,425)	12,764	(91,500)	2,240	27,198
Opening net debt/(cash)		(18,913)	7,228	7,278	18,033	22,778	6,989	91,000	88,760
Exchange rate movements		594	(839)	(276)	812	238	(1,447)	0	0
Other		1,090	(375)	4,705	(4,131)	2,787	8,936	0	0
Closing net debt/(cash)		7,228	7,278	18,033	22,778	6,989	91,000	88,760	61,562

Source: Company sources, Edison Investment Research

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