

# Pan African Resources

## EGM's Parthian shot

On 12 July 2018, Pan African Resources (PAF) announced that production to the end of June was 160,421oz cf prior guidance of 157-160koz for the year, with the outperformance exclusively attributable to underground operations at Evander (EGM). More significantly, for the first time management provided guidance of 170koz for FY19, which was materially above our prior expectation of 140koz on account of construction at Elikhulu continuing to progress "ahead of schedule", such that it is now entering the commissioning phase with first gold expected in August ahead of a two-month ramp-up to full production. As a result, we have increased our EPS forecasts modestly for FY18 (although large in percentage terms) and materially for FY19.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/16	168.4	45.9	2.08	0.88	3.8	11.1
06/17	167.8	19.4	1.22	0.45	6.5	5.7
06/18e	152.5	3.2	0.27	0.00	29.5	0.0
06/19e	165.9	38.1	1.55	0.67	5.1	8.4

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

## Rand weakness compensates for gold weakness

In the near term, our gold price forecast for FY19 remains unchanged at US\$1,291/oz. However, Pan African will benefit from the recent 8.6% decline in the value of the South African rand against the US dollar since H218.

## Elikhulu compensates for EGM

In the longer term, the development of Elikhulu should increase output to a steady-state level of c 181koz and, as such, it will largely replace production lost from Evander underground – albeit at a much higher margin.

## Valuation: On a rising trend again

Updating our long-term forecasts, our headline absolute valuation of PAF has risen by 0.42p to 13.01p. Including new projects and other assets, however, our all-in valuation has risen by 0.96p to 17.53p plus the value of c 20.1m underground Witwatersrand ounces, which could lie anywhere in the range 0.17-4.15p per share, depending on market conditions. At the same time, if PAF's average price to normalised current year EPS ratio of 9.7x in the period FY10-17 is applied to our forecasts, then its share price should be 15.1p in FY19 and 18.7p in FY20. In addition, it remains cheaper than its South African- and London-listed gold mining peers on at least 41% of valuation measures on the basis of our forecasts, or 58% on the basis of consensus forecasts. Based on our assumptions, its FY19 dividend yield is also the third-highest of the 65 ostensibly precious metals' companies paying dividends (see Exhibit 11). It is also trading below its interim book value of 11.8p per share (H118).

Operational update

Metals & mining

19 July 2018

**Price** 7.95p

**Market cap** £178m

ZAR17.6631/£, ZAR13.3595/US\$, US\$1.3217/£

Net debt at end-December 2017 (£m) 42.2  
excluding ZAR52.3m (£3.0m) of MC Mining shares (formerly Coal of Africa)

Shares in issue\* 2,234.7m

\*Effective 1,928.3m post-consolidation

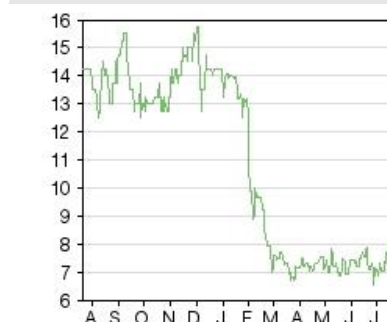
Free float 86%

Code PAF

Primary exchange JSE/AIM

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	2.2	11.6	(45.4)
Rel (local)	1.8	6.4	(47.7)
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

FY18 results August/ September 2018

### Analyst

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## Operational update

On 12 July 2018, Pan African Resources released an operational update stating that production for the group for the 12 months to 30 June was 160,421oz, compared with prior guidance of 157-160koz for the year, with the outperformance exclusively accounted for by underground operations at Evander. A comparison of our prior expectations for both H218 and FY18 (which had previously been towards the bottom of management's guidance range) and actual production figures is provided in Exhibit 1, below. More significantly, for the first time management has provided guidance for the FY19 financial year. This was 29,659oz, or 21.1%, above our prior expectations, at 170,000oz, reflecting that construction at Elikhulu has continued to progress "ahead of schedule" such that the construction teams are now entering the commissioning phases of the project in anticipation of a two-month ramp-up to full production and first gold being produced in August 2018. A summary of our production expectations, by business segment (and now aligned with management guidance) is as follows:

**Exhibit 1: PAF group-wide production, actual and forecast, FY14-FY19e (oz)**

Operation	FY14	FY15	FY16	FY17	H118	H218e (previous)	H218e (current)	FY18e (previous)	FY18e (current)	FY19e (previous)	FY19e (current)
Barberton	88,738	81,493	84,690	71,763	32,159	40,885	40,885	73,044	73,044	94,641	84,641
Evander	76,556	63,558	73,496	43,304	32,734	13,266	17,185	46,000	49,919	0	0
BTRP	22,885	24,283	28,591	26,745	8,452	9,115	9,132	17,567	17,584	20,000	20,000
ETRP	0	6,523	18,151	29,473	11,937	9,063	7,937	21,000	19,874	10,000	20,000
Elikhulu	0	0	0	0	0	0	0	0	0	15,700	45,359
<b>Total</b>	<b>188,179</b>	<b>175,857</b>	<b>204,928</b>	<b>173,285</b>	<b>85,282</b>	<b>72,329</b>	<b>75,139</b>	<b>157,611</b>	<b>160,421</b>	<b>140,341</b>	<b>170,000</b>

Source: Edison Investment Research, Pan African Resources. Note: Numbers may not add up owing to rounding.

Note that, all things being equal, the implied level of production from Elikhulu for FY19 suggests 81% capacity utilisation during the year or, alternatively, that it will operate at the equivalent of full capacity for 9.7 months out of the 12-month period.

## Incidental equity raising

On 31 May 2018, Pan African Resources announced it had been notified that PAR Gold had disposed of 130m shares in PAF, representing 5.8% of the issued share capital of the company, at a price of ZAR1.15 per share. In the aftermath of the disposal, PAR Gold has continued to hold 306.36m Pan African Resources shares, representing 13.7% of the issued share capital of the company. The Pan African Resources shares held by PAR Gold are treated as treasury shares and eliminated on consolidation for the purposes of calculating earnings per share. Following the disposal, the number of shares issued by PAF is therefore as follows:

**Exhibit 2: Pan African Resources' shares outstanding**

	Number of shares
Total issued shares	2,234,687,537
Less share held by PAR Gold (subsequent to disposal)	306,358,058
Shares taken into account for EPS purposes	1,928,329,479

Source: Pan African Resources

As an indirect 49.9% shareholder in PAR Gold and, given the economic rights attached to its shareholding, Pan African has received the majority of the proceeds from this disposal, amounting to approximately ZAR126m, net of costs and capital gains taxes, which it will use for general corporate and liquidity purposes and to fund the expansion of the Elikhulu project's throughput to 1.2Mtpm.

## Short-term financial forecasts

As a result of the considerations outlined above, our detailed financial forecasts for PAF for H218 and FY18 are now as in Exhibit 3. Note that, as previously, the ZAR160m (£9.5m, US\$13.0m) cost relating to the closure of the Evander 8 Shaft underground operation has been included under other income/(expenses) in H218 (and therefore also FY18). As such, it is included in our forecast of EPS and HEPS, but not in our forecast of normalised EPS (also in Exhibit 15 on page 9). In the meantime, group net assets attributable to Evander (excluding goodwill) amounted to £177.6m as at 31 December 2017, of which Edison estimates that the majority were accounted for by Evander underground operations (as opposed to the ETRP). The decision to close Evander underground operations could therefore result in an impairment in this order of magnitude (which has also been excluded from our forecasts below). When Pan African does report its FY18 results in September therefore, it may also opt to disclose them with Evander 8 Shaft underground reflected as a discontinued operation. Our estimates of PAF's FY18e results, excluding the contribution from underground operations at Evander, is shown in the penultimate column below.

<b>Exhibit 3: PAF underlying P&amp;L statement by half-year (H115-H218e) actual and expected</b>										
<b>£000s (unless otherwise indicated)</b>	<b>H216</b>	<b>H117</b>	<b>H217</b>	<b>H118</b>	<b>H218 (previous)</b>	<b>H218 (current)</b>	<b>FY18e (previous)</b>	<b>FY18e (current)</b>	<b>FY18e (excl Evander)</b>	<b>FY19e</b>
Mineral sales	93,728	105,046	64,538	82,900	68,809	71,933	151,709	154,833	104,410	166,110
Realisation costs	(687)	(1,548)	(278)	(1,500)	(765)	(800)	(2,265)	(2,300)	(1,551)	(206)
Realisation costs (%)	0.73	1.47	0.43	1.81	1.11	1.11	1.49	1.49	1.49	0.12
On-mine revenue	93,041	103,498	64,261	81,400	68,043	71,133	149,443	152,533	102,860	165,904
Gold cost of production	(51,102)	(65,188)	(67,851)	(69,600)	(63,568)	(63,400)				
Pt cost of production	(1,796)	(2,300)	(2,721)	0						
Coal cost of production		(10,568)	(11,188)	0						
Cost of production	(57,637)	(78,056)	(55,950)	(69,600)	(63,568)	(63,400)	(133,168)	(133,000)	(74,346)	(105,106)
Depreciation	(5,180)	(6,450)	(4,043)	(5,900)	(9,309)	(9,277)	(15,209)	(15,177)	(9,433)	(14,598)
Mining profit	30,225	18,992	4,267	5,900	(4,833)	(1,544)	1,067	4,356	19,081	46,199
Other income/(expenses)	(8,697)	2,175	(4,178)	(800)	(9,486)	(9,486)	(10,286)	(10,286)	(800)	(1,252)
Loss in associate etc	0	256	5,352	(400)			(400)	(400)	(400)	
Loss on associate disposal	0	0	(4,854)	0			0	0	0	
Impairment costs	0	0		0						
Royalty costs	(1,606)	(968)	(367)	(300)	42	(234)	(258)	(534)	(875)	(1,623)
Net income before finance items	19,923	20,455	221	4,400	(14,277)	(11,263)	(9,877)	(6,863)	17,006	43,325
Finances income	299	70	222	700						
Finance costs	(891)	(1,079)	(1,736)	(800)						
Net finance income	(592)	(1,009)	(1,514)	(100)	(529)	(529)	(629)	(629)	(629)	(6,459)
Profit before taxation	19,331	19,446	(1,293)	4,300	(14,806)	(11,792)	(10,506)	(7,492)	16,377	36,866
Taxation	(4,754)	(5,475)	5,232	(1,000)	1,386	2,688	386	1,688	13,468	(8,132)
Marginal tax rate (%)	26	28	404.8	23.3	9.4	22.8	3.7	22.5	82.2	22.1
Deferred tax									0	
Profit after taxation	14,577	13,970	3,940	3,300	(13,420)	(9,104)	(10,120)	(5,804)	6,285	28,734
EPS (p)	0.82	0.93	0.24	0.18	(0.75)	(0.50)	(0.56)	(0.32)	0.35	1.49
Normalised EPS (p)	1.31	0.78	0.50	0.23		0.02		0.27	0.41	1.55
HEPS* (p)	0.82	0.91	0.28	0.20	(0.75)	(0.50)	(0.56)	(0.32)	0.35	1.49
Normalised HEPS (p)	1.31	0.77	0.54	0.24		0.02		0.27	0.41	1.55
Diluted EPS (p)	0.82	0.93	0.24	0.18	(0.73)	(0.49)	(0.55)	(0.31)	0.34	1.46
Diluted HEPS* (p)	0.82	0.91	0.28	0.20	(0.73)	(0.49)	(0.55)	(0.31)	0.34	1.46
Diluted normalised HEPS (p)	1.31	0.77	0.54	0.24		0.02		0.26	0.40	1.52

Source: Pan African Resources, Edison Investment Research. Note: As reported basis; \*HEPS = headline earnings per share (company adjusted basis).

Edison's FY18 EPS forecasts (above) compare with a mean consensus estimate of 0.643p (cf 0.886p in May) and a median consensus estimate of 0.426p within the range 0.000-2.400p (source: Bloomberg, 13 July 2018).

Our (normalised) forecast of 1.55p for FY19 compares with our previous forecast of 0.92p and with a mean consensus of 1.217p (cf 1.392p/share in May) and a median consensus estimate of 1.000p

within a range of 0.669-2.900p/share. Note that our gold price forecast for FY19 remains unchanged at US\$1,291/oz.

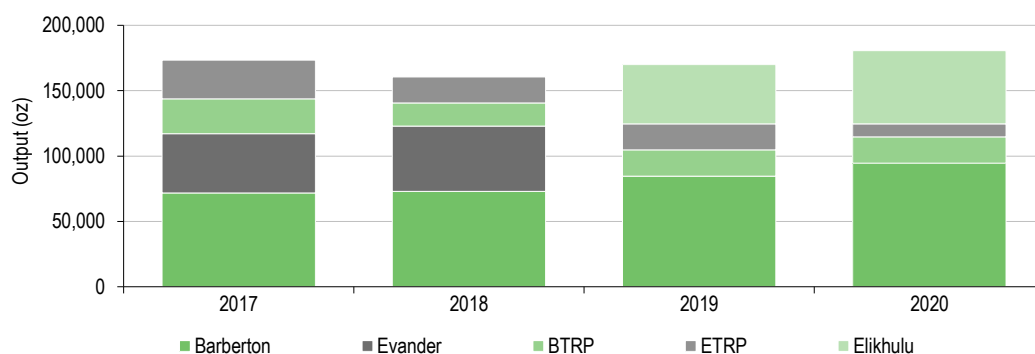
In the meantime, management is reviewing the merits of mining the Evander 8 Shaft pillar, which may extend the final closure date of the shaft, generate positive cash flows and provide further employment opportunities for those affected by the Evander Section 189 retrenchment process. In addition, in recognition of the possibility that operations at Evander's existing infrastructure could cease in the foreseeable future, on 28 March PAF announced it would reassess the feasibility study on the Egoli project (see [A second glance at the first half](#), published in April 2018) as a standalone project, and this reassessment is expected to be completed imminently. Otherwise, the Evander Tailings Retreatment Project (ETRP) effectively represents a substantial pilot plant, designed to prove metallurgical recovery and cost parameters, before the development of the much larger Elikhulu project (see [A second glance at the first half](#), published in April 2018). To benefit from Elikhulu's economies of scale; however, management has stated that Elikulu's capacity will be increased by 200ktpm from December 2018 to incorporate the existing ETRP throughput. The additional construction associated with this initiative will increase capex by c ZAR65m (US\$4.9m, or £3.7m at prevailing forex rates), which is assumed to have occurred in H218 and H119 (as previously), but is not expected to alter the timeline at Elikhulu, with first gold still expected in August 2018 and full commissioning at the end of September 2018. However, management will continue to source material for toll-treatment with grades higher than the ETRP's reserve and resource grades, thereby taking commercial advantage of the fact that it is the only retreatment operator in the area and is therefore (effectively) the buyer of choice – or even the buyer of last resort – for tailings assets in the region.

## Long-term forecasts and absolute valuation

### Three producing assets plus Elikhulu

The development of Elikhulu (which is now entering commissioning) should increase output to c 181koz in FY20. As such, it will largely replace production lost from Evander underground (see Exhibit 1) – albeit at a much higher margin – which underpins our longer-term earnings and cash-flow expectations.

**Exhibit 4: Edison estimate of PAF production, FY17-FY20e (oz)**

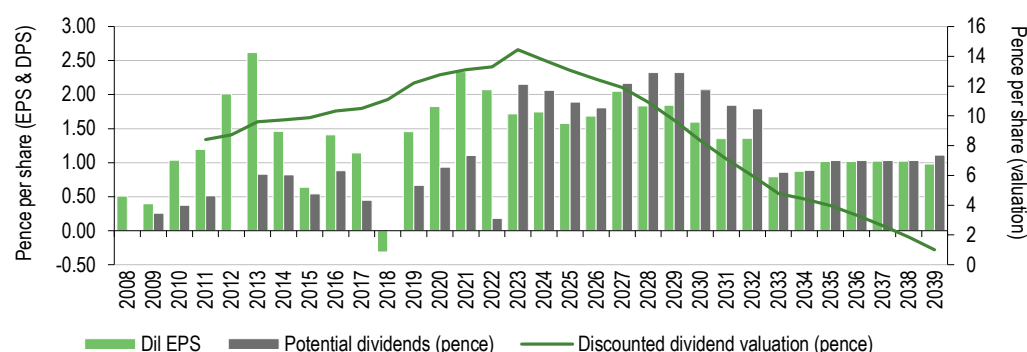


Source: Edison Investment Research

In the meantime, the value of the South African rand has fallen 8.6% against the US dollar and 4.4% against sterling compared to the average rate prevailing in H218 (ie January-June 2018), with the result that our absolute value of PAF (based on its three producing assets plus Elikhulu) has increased from 12.59p per share (see [Finishing unfinished business](#), published on 16 May 2018) to 13.01p per share, based on the present value of our estimated maximum potential stream of

dividends payable to shareholders over the life of its mining operations (applying a 10% discount rate).

**Exhibit 5: PAF estimated life of operations diluted EPS and (maximum potential) DPS**



Source: Edison Investment Research, Pan African Resources

## Other assets

In the wake of the Evander underground closure, PAF could continue to count the Evander underground resources as one of its assets, albeit one that would be valued as an in-situ resource, rather than, as previously, on the basis of future earnings, cash flows, dividends etc. At the current time, we estimate the underground resource at Evander (including 7 Shaft vamping, Rolspruit, Poplar and Evander South, but excluding 8 Shaft and Egoli, which is valued separately – see Exhibit 8) to be 20.1Moz, categorised as follows:

**Exhibit 6: Evander underground resource estimate**

Resources	Tonnes (kt)	Grade (g/t)	Moz
Measured	0	0.00	0.000
Indicated	48,276	10.24	15.892
Inferred	18,350	7.18	4.236
<b>Total</b>	<b>66,626</b>	<b>9.40</b>	<b>20.127</b>

Source: Pan African Resources, Edison Investment Research

The value of Witwatersrand basin resources (where Evander is located) has proved persistently difficult to place within a global context – a problem exacerbated by an absence of pure Wits basin exploration companies. PAF bought Evander from Harmony in mid-2012 at a price equivalent to US\$5.26 per resource ounce (albeit the gold price was then materially higher, averaging US\$1,668/oz in that year). Since then, we estimate that PAF has mined 415,840oz from Evander excluding the ETRP (389,229oz from underground sources), ie implying only 1.2% depletion relative to the acquired underground resource of 32.52Moz. More recently, Sibanye acquired Wits Gold (although then not a pure exploration company) at a price equivalent to US\$0.22/oz, at a time when the gold price was c US\$1,225/oz. Otherwise, a value for in-situ Witwatersrand gold ounces may be imputed from the US\$2.78/oz value calculated by us for Bushveld platinum equivalent ounces (there still being pure platinum explorers in South Africa) in our report, [Mining overview: Unlocking the price to NPV discount](#), published in November 2017 – contingent on investors accepting the similarities between Bushveld and Witwatersrand geology in terms of depth, reef width and continuity, mining methods etc. On the basis of these three valuation points, the in-situ value of the Evander underground assets could range from 0.23-5.49 US cents per PAF share, as shown below:

**Exhibit 7: EGM underground**

Valuation basis	Wits Gold acquisition in December 2012	Bushveld PtE exploration oz (Edison November 2017)	PAF acquisition of EGM in 2012
In-situ value (US\$/oz)	0.22	2.78	5.26
Implied EGM underground valuation (US\$m)	4.4	56.0	105.9
Ditto (US cents per share)	0.23	2.90	5.49

Source: Edison Investment Research

Note that, relative to the equivalent valuation in our note [Finishing unfinished business](#) published on 16 May 2018, the only change in our valuation here reflects the increased number of shares effectively in issue as a result of the PAR Gold sale of Pan African shares detailed on pages 2-3.

Including its growth projects, as discussed in our note [A second glance at the first half](#), published in April 2018, a summary of our overall valuation of PAF is therefore now as follows:

**Exhibit 8: PAF absolute valuation summary**

Project	Current valuation (pence/sh)	Previous valuation (pence/sh)
Existing three producing assets plus Elikhulu	13.01	12.59
Egoli	3.91	3.31
Fairview Sub-Vertical Shaft Project	0.46	0.43
MC Mining shares*	0.15	0.24
<b>Sub-total</b>	<b>17.53</b>	<b>16.57</b>
EGM underground resource	0.17-4.15	0.18-4.27
<b>Total</b>	<b>17.70-21.68</b>	<b>16.75-20.84</b>

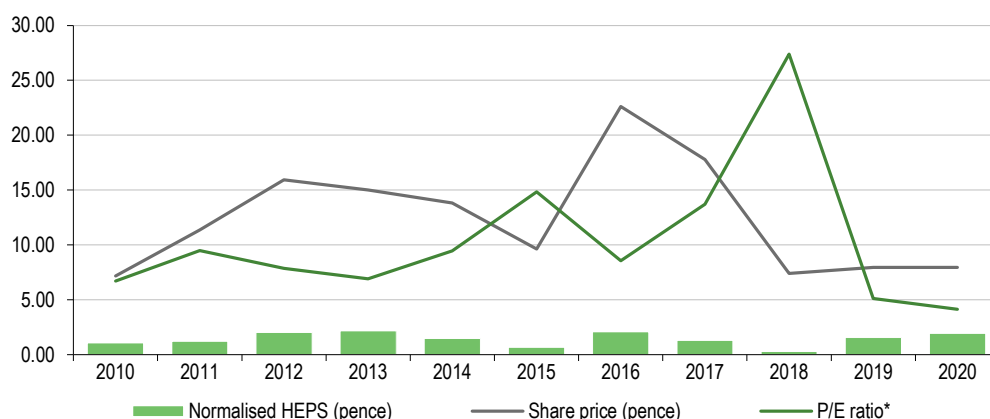
Source: Edison Investment Research

Note that the valuation changes to Egoli and the Fairview Sub-Vertical Shaft project reflect changes to timing (ie rolling forward our base valuation year for the purposes of our dividend discount model from FY18 to FY19), the number of shares in issue and prevailing foreign exchange rates only.

## Historic and relative valuation

### Historic

Exhibit 9, below, depicts PAF's average share price in each of its financial years, from FY10 to FY17 and compares this with normalised HEPS in the same year. For FY18 to FY20, the current share price (of 7.95p) is compared with Edison's forecast normalised HEPS for FY18 to FY20. Although PAF's price to normalised HEPS ratio for FY18 is above the top of its recent historical range (based on our forecasts – see Exhibit 9, below), it once again falls well below it in FY19 (based on our upgraded estimates) and falls further below it in FY20, by which time we expect Elikhulu to be operating at full capacity.

**Exhibit 9: PAF historical price to normalised HEPS ratio, FY10-FY20e**


Source: Edison Investment Research, Bloomberg. Note: \*Completed historic years calculated with respect to average share price within the year shown and normalised HEPS; zero normalisation assumed before 2016.

Stated alternatively, if PAF's average contemporary price to normalised EPS ratio of 9.7x in the period FY10-17 is deemed to be 'correct', then its share price should be 15.1p in FY19 and 18.7p in FY20.

## Relative

In the meantime, over the next two years PAF remains cheaper than its South African and London-listed gold mining peers on at least 41% of valuation measures (15 out of 36 measures in the table below on an individual company basis) using our forecasts, or 58% of measures (21 out of 36 measures) using consensus forecasts:

**Exhibit 10: Comparative valuation of PAF with respect to South African peers**

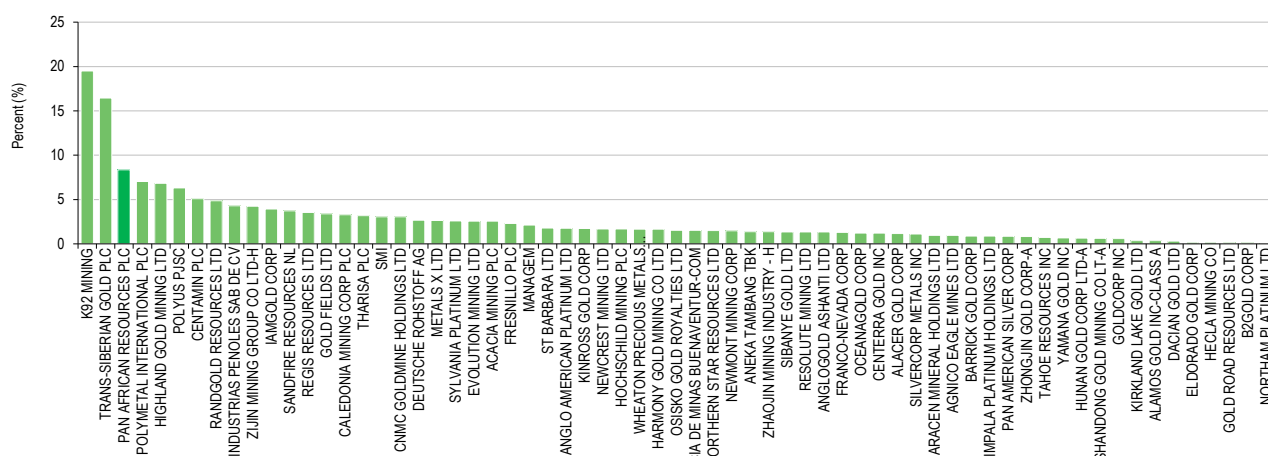
	EV/EBITDA (x)		P/E (x)		Yield (%)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
AngloGold Ashanti	4.0	3.8	12.4	10.4	1.2	1.5
Gold Fields	3.6	3.2	22.7	14.4	2.9	3.9
Sibanye	3.5	2.9	9.5	5.8	0.6	2.0
Harmony	2.8	2.4	6.5	8.5	1.2	1.7
Randgold Resources	9.8	8.9	22.1	19.7	4.4	5.3
Centamin	4.1	3.4	14.7	12.4	4.3	5.9
<b>Average (excluding PAF)</b>	<b>4.6</b>	<b>4.1</b>	<b>14.6</b>	<b>11.8</b>	<b>2.4</b>	<b>3.4</b>
PAF (Edison)	10.3	3.3	29.5	5.1	0.0	8.4
PAF (consensus)	6.3	3.2	13.1	6.5	3.8	5.1

Source: Edison Investment Research, Bloomberg. Note: Peers priced at 13 July 2018.

## Dividend

PAF has a target dividend pay-out ratio of 40% of net cash generated by operating activities, after allowing for the cash flow effect of sustaining capital, contractual debt repayments and one-off items. On the basis of this policy, coupled with our expectations, we estimate that the company will be capable of paying a dividend of 0.67p per share in FY19, in which case it will have the third highest FY19 dividend yield of the 65 ostensibly precious metals' companies paying dividends to shareholders:



**Exhibit 11: Global gold mining companies ranked by forecast dividend yield (%)**


Source: Bloomberg (BEst Div Yld BF12M) for peers, Edison Investment Research for PAF FY19. Note: Consensus data for peers priced 13 July 2018.

## Financials

PAF had £42.2m of net debt on its balance sheet as at 31 December 2017 after the payment of a net £8.1m final dividend in late December (cf £7.0m as at June 2017, £33.2m as at December 2016, £22.8m as at 30 June 2016, £16.2m as at 31 December 2015 and £18.0m as at 30 June 2015). As such, at the interim stage, net debt equated to a gearing (net debt/equity) ratio of 19.9% and a leverage (net debt/[net debt + equity]) ratio of 16.6%.

PAF's major immediate capital requirements relate to the development of the Elikhulu project. At end December 2017, ZAR511.7m in capex had been expended on the project and ZAR671.4m is expected by mid-February 2018 (excluding capitalised borrowing costs). Including the project to expand Elikulu's throughput capacity by 200ktpm from December 2018 to incorporate the existing ETRP feed (see page 4), our forecasts for PAF's immediate future capital expenditure commitments for the project are as follows:

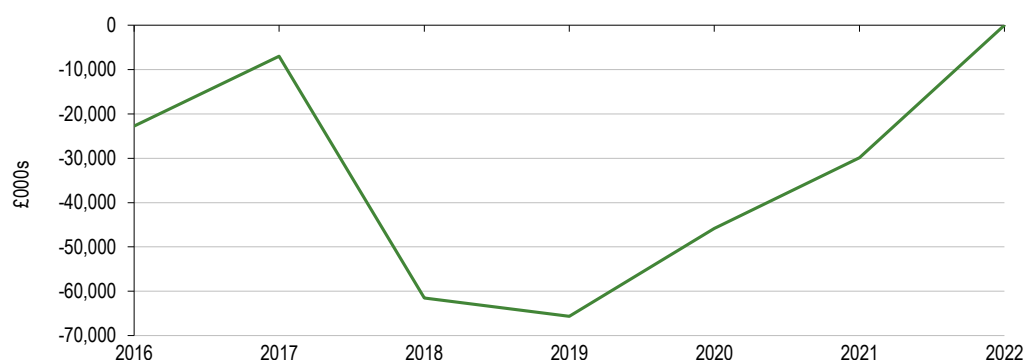
**Exhibit 12: Estimated Elikhulu capex requirements by financial year, FY19-23**

£000s	FY19	FY20	FY21	FY22	FY23
Total capex*	36,221	7,203	16,069	16,069	5,084

Source: Pan African Resources, Edison Investment Research. Note: \*Includes sustaining capex, but excludes phase 3 capex, which commences in FY26.

As a result, after investing activities we estimate that PAF will experience a net negative cash flow in FY18 and FY19, before a positive trend sets in once again from FY20 onwards. Maintaining a dividend policy of 40% of free cash flows less sustaining capital, debt repayments and exceptional items, PAF's net debt funding requirement, on our estimates, will evolve as follows in the period from FY16 to FY22e:



**Exhibit 13: PAF estimated funding requirement, FY16 to FY23e**


Source: Edison Investment Research, Pan African Resources

Note that Edison's estimate of PAF's maximum net debt funding requirement of £65.7m (cf £90.3m previously) in FY19 equates to ZAR1,160m at prevailing forex rates, or contemporary gearing (debt/equity) of 28.0% and leverage (debt/[debt+equity]) of 21.9% (cf 42.0% and 29.6% previously, respectively).

Debt is financed via a ZAR1bn revolving credit facility (£56.6m at current exchange rates), of which ZAR676.6m (£38.3m) was drawn down as at end-H118, plus a banking facility. To ensure the group has adequate working capital and continuation of funding for operations and growth projects, Pan African has also finalised an additional standby facility of approximately ZAR100m. Also, in the past Rand Merchant Bank (a division of First Rand) has provided PAF with all the necessary approval for a ZAR1bn underwritten five-year debt facility for Elikhulu.

The group's revolving credit facility (RCF) debt covenants and their actual recorded levels within recent history are as follows:

**Exhibit 14: PAF group debt covenants**

Measurement	Constraint	H118 (actual)	FY17 (actual)	H117 (actual)	FY16* (actual)	HY16 (actual)
Net debt:equity	Must be less than 1:1	0.19:1	0.01:1	0.17:1	0.35:1	0.50:1
Net debt:EBITDA	Must be less than 2.5:1	2.25:1	0.05:1	0.48:1	0.12:1	0.13:1
Interest cover ratio	Must be greater than four times	4.62:1	10.00	21.99	23.98	18.08
Debt service cover ratio	Must be greater than 1.3:1	1.85:1	N/A	N/A	N/A	N/A

Source: Pan African Resources. Note: \*Subsequently restated for disposals.

Note that on our FY18 forecasts, we predict that PAF will 'break' its net debt:EBITDA and interest cover covenants. However, this contingency has already been pre-empted by management and the providers of the RCF, which have agreed to temporarily waive the net debt:EBITDA condition during the period in which capex relating to Elikhulu is at its most intense.

**Exhibit 15: Financial summary**

	£'000s	2012	2013	2014	2015	2016	2017	2018e	2019e	2020e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>										
Revenue		100,905	133,308	154,202	140,386	168,404	167,759	152,533	165,904	187,283
Cost of sales		(46,123)	(71,181)	(106,394)	(110,413)	(108,223)	(134,007)	(133,000)	(105,106)	(105,767)
Gross profit		54,783	62,127	47,808	29,973	60,181	33,752	19,533	60,798	81,516
EBITDA		45,018	53,276	44,165	28,448	57,381	32,417	18,999	59,175	78,894
Operating profit (before GW and except.)		41,759	47,278	34,142	18,110	46,925	21,924	3,822	44,577	64,273
Intangible amortisation		0	0	0	0	0	0	0	0	0
Exceptionals		(48)	7,232	(12)	(198)	(12,183)	(1,248)	(10,686)	(1,252)	(1,252)
Other		0	0	0	0	0	0	0	0	0
Operating profit		41,711	54,510	34,130	17,912	34,742	20,676	(6,863)	43,325	63,021
Net interest		516	197	(191)	(2,109)	(1,006)	(2,523)	(629)	(6,459)	(5,910)
Profit before tax (norm)		42,274	47,475	33,951	16,001	45,919	19,401	3,193	38,118	58,363
Profit before tax (FRS 3)		42,226	54,707	33,939	15,803	33,736	18,153	(7,492)	36,866	57,112
Tax		(12,985)	(12,133)	(7,155)	(4,133)	(8,234)	(243)	1,688	(8,132)	(21,116)
Profit after tax (norm)		29,290	35,342	26,796	11,868	37,685	19,158	4,882	29,985	37,247
Profit after tax (FRS 3)		29,242	42,574	26,785	11,670	25,502	17,910	(5,804)	28,734	35,995
Average number of shares outstanding (m)		1,445.2	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)		2.03	2.18	1.46	0.64	2.08	1.22	0.27	1.55	1.93
EPS - FRS 3 (p)		2.02	2.63	1.47	0.64	1.41	1.14	(0.32)	1.49	1.87
Dividend per share (p)		0.00	0.83	0.82	0.54	0.88	0.45	0.00	0.67	0.94
Gross margin (%)		54.3	46.6	31.0	21.4	35.7	20.1	12.8	36.6	43.5
EBITDA margin (%)		44.6	40.0	28.6	20.3	34.1	19.3	12.5	35.7	42.1
Operating margin (before GW and except.) (%)		41.4	35.5	22.1	12.9	27.9	13.1	2.5	26.9	34.3
<b>BALANCE SHEET</b>										
Fixed assets		86,075	249,316	223,425	220,150	230,676	273,635	328,147	354,683	351,662
Intangible assets		23,664	38,628	37,040	37,713	38,682	41,425	43,161	44,897	46,634
Tangible assets		62,412	209,490	185,376	181,533	190,725	224,687	277,463	302,263	297,506
Investments		0	1,199	1,010	905	1,269	7,523	7,523	7,523	7,523
Current assets		41,614	26,962	23,510	17,218	22,016	37,090	21,862	23,072	25,370
Stocks		1,869	6,596	5,341	3,503	4,399	7,583	5,161	5,537	6,251
Debtors		6,828	15,384	12,551	10,386	14,891	14,813	11,453	12,288	13,872
Cash		19,782	4,769	5,618	3,329	2,659	9,447	0	0	0
Current liabilities		(11,062)	(24,066)	(24,012)	(22,350)	(32,211)	(31,251)	(68,265)	(79,588)	(59,876)
Creditors		(11,062)	(23,202)	(19,257)	(17,301)	(25,230)	(27,105)	(19,041)	(26,214)	(26,348)
Short-term borrowings		0	(864)	(4,755)	(5,049)	(6,981)	(4,146)	(49,224)	(53,374)	(33,528)
Long-term liabilities		(14,001)	(80,004)	(63,528)	(67,850)	(69,506)	(62,893)	(63,448)	(63,966)	(64,993)
Long-term borrowings		(869)	(11,133)	(8,141)	(16,313)	(18,456)	(12,290)	(12,290)	(12,290)	(12,290)
Other long-term liabilities		(13,132)	(68,871)	(55,387)	(51,537)	(51,049)	(50,603)	(51,158)	(51,676)	(52,702)
Net assets		102,626	172,208	159,396	147,167	150,975	216,581	218,296	234,201	252,164
<b>CASH FLOW</b>										
Operating cash flow		49,092	61,618	45,996	26,423	47,130	29,945	8,413	51,058	75,478
Net Interest		516	314	(606)	(2,109)	(1,006)	(2,141)	(629)	(6,459)	(5,910)
Tax		(11,616)	(13,666)	(8,536)	(3,943)	(7,777)	(8,003)	2,243	(7,614)	(20,090)
Capex		(17,814)	(27,197)	(21,355)	(19,554)	(14,097)	(36,748)	(69,268)	(41,135)	(11,600)
Acquisitions/disposals		(1,549)	(96,006)	0	(760)	(30,999)	8,364	5,210	0	0
Financing		259	47,112	349	(235)	15,207	34,638	7,519	0	0
Dividends		(7,416)	0	(14,684)	(15,006)	(9,882)	(13,290)	(8,014)	0	(18,032)
Net cash flow		11,471	(27,826)	1,164	(15,184)	(1,425)	12,764	(54,525)	(4,150)	19,846
Opening net debt/(cash)		(9,943)	(18,913)	7,228	7,278	18,033	22,778	6,989	61,514	65,664
Exchange rate movements		(1,813)	594	(839)	(276)	812	238	0	0	0
Other		(688)	1,090	(375)	4,705	(4,131)	2,787	0	0	0
Closing net debt/(cash)		(18,913)	7,228	7,278	18,033	22,778	6,989	61,514	65,664	45,818

Source: Company sources, Edison Investment Research

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