EDISON

Pan African Resources

Solid push towards year end

Nine-month operational update

Metals & mining

In its nine-month operational update, Pan African Resources (PAF) disclosed production that is consistent with its FY19 guidance of 170,000oz. This caused us to reduce our FY19 forecasts fractionally in anticipation of lower production than we previously expected from Barberton offset by higher (but lower-margin) production from Evander underground and the BTRP. More importantly, however, Pan African's directors approved the development of the Evander 8 Shaft pillar project, with production from as early as August, causing us to increase our forecasts for FY20 and beyond and our ultimate valuation of the company.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/17	167.8	19.4	1.22	0.45	8.3	4.5
06/18	154.2	2.4	1.60	0.00	6.3	N/A
06/19e	163.1	26.0	0.99	0.30	10.2	3.0
06/20e	202.6	59.1	1.88	0.56	5.4	5.5

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

Evander 8 Shaft pillar project production imminent

The Evander 8 Shaft pillar project will contribute, on average, 30,000oz of production per annum to the group over the next three financial years, including c 20,000oz in its first year of production, with the result that management has increased its group-wide production guidance for FY20 from 170,000oz to 185,000oz currently (an increase of 8.8%). According to the project's updated feasibility study, capital expenditure will amount to ZAR70m, of which ZAR40m will pre-date production, while all-in sustaining costs have been estimated at US$900/oz (at an exchange rate of ZAR14.30/US$). The pre-tax NPV of the project on this basis is US$25.8m (1.3 US cents per share) at a 10% discount rate and a gold price of US$1,305/oz.

Valuation: Up 1.31p/share to 19.00p plus 19.2Moz

Including the Evander 8 Shaft pillar project, our headline absolute valuation of PAF has increased from 12.90p/share to 14.05p/share – a rise of 8.9%. This increases to 19.00p/share (cf 17.69p previously) once growth projects and other assets have been taken into account, plus the value of c 19.2m underground Witwatersrand ounces, which could lie anywhere in the range of 0.17–4.15p per share, depending on market conditions. 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 respective forecasts, its share price could be expected to be 9.3p in FY19, rising to 17.6p in FY20 (cf 16.1p previously). Pan African also remains cheaper than its South African- and London-listed gold mining peers on at least two-thirds of valuation measures regardless of whether Edison or consensus forecasts are used. Finally, based on our assumptions, its dividend yield will be within the top third (if not the top 10) of the 45 precious metals companies expected to pay a dividend over the course of the next 12 months, if not in FY19 then certainly in FY20 (see Exhibit 10 on page 8).

19 June 2019

Price	**10.1p**
Market cap	**£226m**

ZAR18.4001/£, ZAR14.5656/US$, US$1.2612/£

Net debt (£m) at end-December 2018 excluding ZAR130.5m (£7.1m) of MC Mining shares (formerly Coal of Africa)	102.7
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	6.3	14.2	30.3
Rel (local)	5.4	12.5	35.1
52-week high/low		10.8p	6.5p

Business description

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

Next events

Operational update	July 2019
Trading statement	September 2019
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AGM	November 2019

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Edison profile page

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Q1–Q319 production

In its nine-month operational update, Pan African disclosed production that is consistent with its full year guidance of 170,000oz, which it reiterated for the 12-month period to end June 2019.

Exhibit 1: PAF group-wide production, actual and forecast, H118–FY19e (oz)

Operation	FY14	FY15	FY16	FY17	H118	H218	FY18	Q119	Q219 (implied)	H119	Q319 (implied)	Q1–Q319	9 mths annualised
Barberton UG	88,738	81,493	84,690	71,763	32,159	40,966	73,125	21,278	17,272	38,550	16,307	54,857	73,142
BTRP	22,885	24,283	28,591	26,745	8,452	9,052	17,504	5,923	6,083	12,006	6,081	18,087	24,116
Barberton	**111,623**	**105,776**	**113,281**	**98,508**	**40,611**	**50,018**	**90,629**	**27,201**	**23,355**	**50,556**	**22,388**	**72,944**	**97,258**
Evander UG	76,556	63,558	73,496	43,304	32,734	15,831	48,565	3,815	5,006	8,821	5,780	14,601	19,468
ETRP	0	6,523	18,151	29,473	11,937	9,313	21,250	3,819	2,526	6,345	**0	6,345	***6,345
Evander	**76,556**	**70,081**	**91,647**	**72,777**	**44,671**	**25,144**	**69,815**	**7,634**	**7,532**	**15,166**	**5,780**	**20,946**	**27,928**
Elikhulu	0	0	0	0	0	0	0	*2,894	13,134	15,292	**14,589	**29,881	39,841
Total	**188,179**	**175,857**	**204,928**	**173,285**	**85,282**	**75,139**	**160,444**	**37,729**	**44,021**	**81,014**	**42,757**	**123,771**	**165,028**

Source: Edison Investment Research, Pan African Resources. Note: Numbers may not add up owing to rounding. UG = underground. *Includes 736oz of capitalised pre-production output in August. **ETRP (Evander Tailings Retreatment Project) throughput processed via Elikhulu plant from H219 onwards. ***Nine-month ETRP production figure not annualised.

Highlights of the period were:

- Throughput of 1.3Mt in March at Elikhulu (100,000t above nameplate capacity), while all-in sustaining costs continued to be lower than previously anticipated, at less than US$600/oz.
- Production at the Barberton Tailings Retreatment Project (BTRP) increased by 47.5% compared to the equivalent period in 2018, to 18,087oz, following the successful commissioning of the 1.7MW BTRP regrind mill in May 2018 that has allowed it to efficiently treat coarser fraction tailings, such as the older (albeit lower-grade) Harper dumps for processing.
- Zero fatalities during Q3, while the group's lost-time injury frequency rate improved substantially, to 1.75 (cf 3.79) and its reportable injury frequency rate improved to 0.58 (cf 1.17).

FY19 production guidance

Management stated that it is confident that it 'remains on track to meet its gold production guidance of 170,000oz for the full financial year to end 30 June 2019'. Within this context, we have adjusted our production forecasts for each asset for FY19, as follows:

Exhibit 2: PAF group-wide production, actual and forecast, H118–FY19e (oz)

Operation	H118	H218	FY18	Q119	Q219 (implied)	H119	Q319 (implied)	Q1-Q319	Q419e	H219e (current)	H219e (previous)	FY19e (current)	FY19e (previous)
Barberton UG	32,159	40,966	73,125	21,278	17,272	38,550	16,307	54,857	17,940	34,247	42,321	72,797	80,871
BTRP	8,452	9,052	17,504	5,923	6,083	12,006	6,081	18,087	6,029	12,110	10,000	24,116	22,006
Barberton	**40,611**	**50,018**	**90,629**	**27,201**	**23,355**	**50,556**	**22,388**	**72,944**	**23,969**	**46,357**	**52,321**	**96,913**	**102,877**
Evander UG	32,734	15,831	48,565	3,815	5,006	8,821	5,780	14,601	4,972	10,752	4,932	19,573	13,753
ETRP	11,937	9,313	21,250	3,819	2,526	6,345	**0	**6,345	**0	**0	**0	**6,345	**6,345
Evander	**44,671**	**25,144**	**69,815**	**7,634**	**7,532**	**15,166**	**5,780**	**20,946**	**4,972**	**10,752**	**4,932**	**25,918**	**20,098**
Elikhulu	0	0	0	*2,894	13,134	15,292	**14,589	**29,881	**17,289	**31,878	**31,733	**47,170	**47,025
Total	**85,282**	**75,139**	**160,444**	**37,729**	**44,021**	**81,014**	**42,757**	**123,771**	**46,230**	**88,987**	**88,986**	**170,000**	**170,000**

Source: Edison Investment Research, Pan African Resources. Note: Numbers may not add up owing to rounding. UG = underground. *Includes 736oz of capitalised pre-production output in August. **ETRP throughput processed via Elikhulu plant from H219 onwards.

Notable changes in our forecasts include a 10.0% increase in production from Barberton underground (Q4 vs Q319) under the influence of three cycling production platforms (including the 256 level platform), which will increase underground mining flexibility still further in conjunction with a concurrent increase in underground development rates. Nevertheless, production at this level is consistent with flat mill throughput (H2 vs H119) at a reduced (and historically relatively low) grade of 9.01g/t – auguring well for an output increase in FY20 when grades may be expected to return to close to their long-term average in the range 10.25–10.75g/t.

Updated FY19 financial forecasts

Other changes to our assumptions for H219 are that the gold price has been approximately 2% weaker than our prior expectations (estimated US$1,296/oz vs US$1,323/oz previously), only partially mitigated by a South African rand that has been approximately 1% weaker against both sterling and the dollar.

A summary of our updated financial expectations performance is as follows:

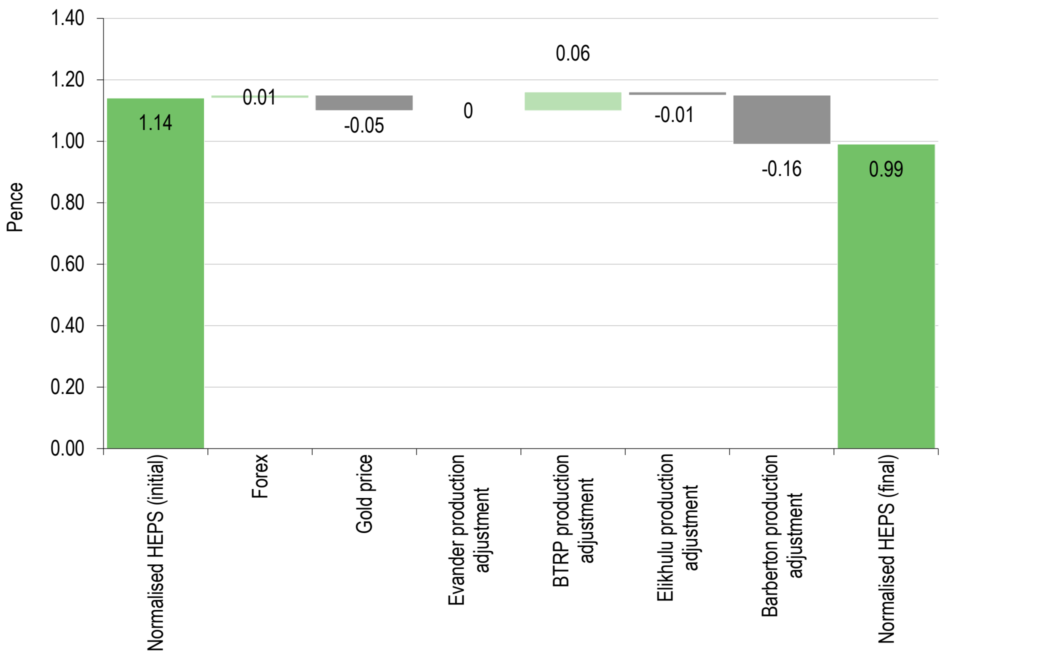
Exhibit 3: PAF underlying P&L statement by half-year (H118–H219e) actual and expected

£000s (unless otherwise indicated)	H118 (as reported)	H218 (implied)	FY18	FY18 (underlying)	FY18 (as reported)	H119	H219e	FY19e (current)	FY19e (previous)
Mineral sales	82,900	74,000	156,900	108,500	108,500	75,300	89,234	164,534	166,367
Realisation costs	(1,500)	(1,200)	(2,700)	(2,000)	(2,000)	(600)	(813)	(1,413)	(1,430)
Realisation costs (%)	1.81	1.62	1.72	1.84	1.84	0.80	0.91	0.86	0.86
On-mine revenue	81,400	72,800	154,200	106,500	106,500	74,700	88,422	163,122	164,937
Cost of production	(69,600)	(69,200)	(138,800)	(77,700)	(77,700)	(54,200)	(59,647)	(113,847)	(110,133)
Depreciation	(5,900)	(5,100)	(11,000)	(4,900)	(4,900)	(5,300)	(5,778)	(11,078)	(11,001)
Mining profit	5,900	(1,500)	4,400	23,900	23,900	15,200	22,997	38,197	43,803
Other income/(expenses)	(800)	(14,900)	(15,700)	(4,200)	(4,200)	(1,400)	0	(1,400)	(1,400)
Loss in associate etc	(400)	400	0	**0	**0	0	0	0	0
Loss on disposals	0	(300)	(300)	0	0	0	0	0	0
Impairment costs	0	(106,300)	(106,300)	Excl.	(8,200)	0	0	0	0
Royalty costs	(300)	(300)	(600)	(400)	(400)	(400)	(2,265)	(2,665)	(3,119)
Net income before finance	4,400	(122,900)	(118,500)	19,300	11,100	13,400	20,732	34,132	39,285
Finances income	700	1,300	2,000	1,500	1,500	300			
Finance costs	(800)	(2,600)	(3,400)	(3,200)	(3,200)	(4,400)			
Net finance income	(100)	(1,300)	(1,400)	(1,700)	(1,700)	(4,100)	(5,455)	(9,555)	(9,555)
Profit before taxation	4,300	(124,200)	(119,900)	17,600	9,400	9,300	15,277	24,577	29,730
Taxation	(1,000)	27,600	26,600	2,100	2,100	(1,800)	(5,044)	(6,844)	(9,063)
Marginal tax rate (%)	23.3	22.2	22.2	(11.9)	(22.3)	19.4	33.0	26.2	29.1
PAT (continuing ops)	3,300	(96,600)	(93,300)	19,600	11,500	7,500	10,233	17,733	20,667
Loss from discontinued ops	N/A	N/A	N/A	(6,700)	(104,800)	N/A			
Profit after tax	3,300	(96,600)	(93,300)	12,900	(93,300)	7,500	10,233	17,733	20,667
Headline earnings	3,300	10,000	13,300	13,300	13,300	7,500	10,233	17,733	20,667
EPS (p)	0.18	(5.31)	(5.15)	0.71	(5.15)	0.39	0.53	0.92	1.07
HEPS* (p)	0.20	0.55	0.73	0.73	0.73	0.39	0.53	0.92	1.07
Normalised HEPS (p)	0.23	1.37	1.60	0.97	0.97	0.46	0.53	0.99	1.14
EPS from continuing ops (p)				1.08		0.39	0.53	0.92	1.07

Source: Pan African Resources, Edison Investment Research. Note: As reported basis. *HEPS = headline earnings per share (company adjusted basis). **Loss on assets held for sale reclassified into loss from discontinued operations.

The major reasons behind the reduction in our forecasts for FY19 are the lower gold price and the decline in forecast production from Barberton in H219, only partially offset by foreign exchange rates and the increase in forecast production from the BTRP, as shown in the chart below (created with reference to normalised headline earnings per share (HEPS) in Exhibit 3, above):

Exhibit 4: Edison changes to PAF FY19 normalised HEPS forecast (pence/share)

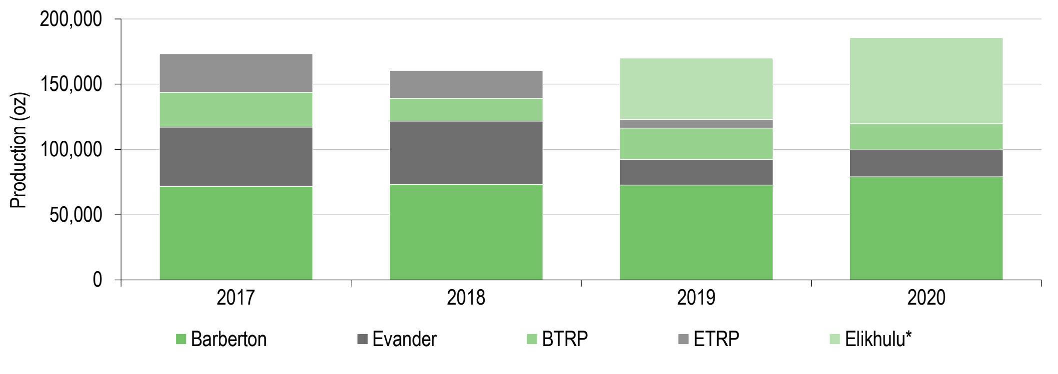


Source: Edison Investment Research

FY20 and beyond

The other major development since Edison's last note (see Pan African: Elikhulu underpins recovery, published on 12 March 2019) is Pan African's board of directors' approval of the Evander 8 Shaft pillar project. Moreover, whereas Edison had previously valued this asset in the expectation of commercial production not being achieved until after the end of FY20, development and equipping of this area of the mine is reported to have already started, with first gold anticipated during August 2019. As such, the project will effectively replace current remnant underground mining and vamping production and PAF expects it to contribute, on average, 30,000oz of production per annum to the group over the next three financial years, including c 20,000oz in FY20, with the result that management has increased its group-wide production guidance for that year from 170,000oz previously to 185,000oz currently (an increase of 8.8%), as shown in the graph below:

Exhibit 5: PAF production and guidance, FY17–20e (oz)



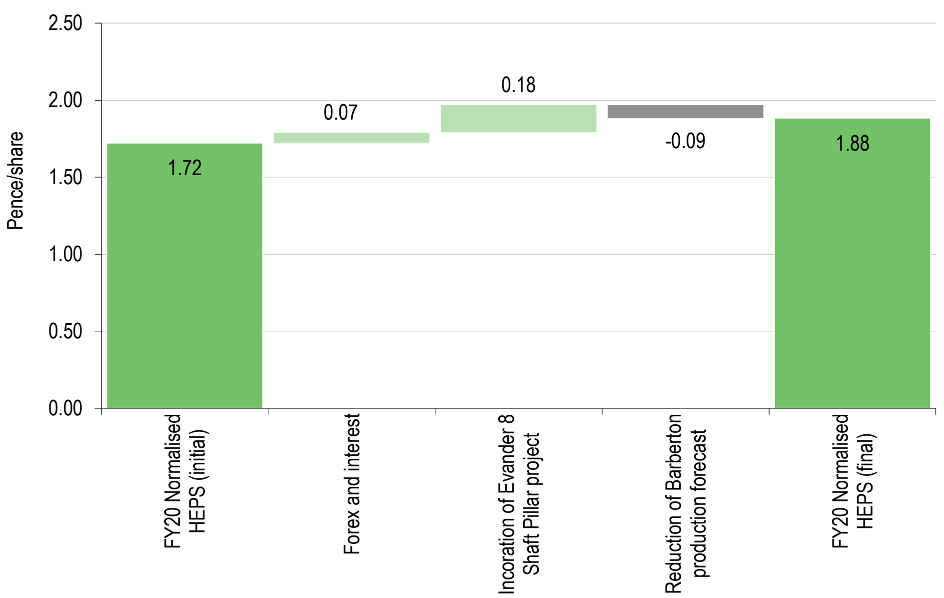
Source: Edison Investment Research. Note: *Elikhulu plant incorporating ETRP throughput from H219 onwards.

A summary of the (updated) results of the Evander 8 Shaft pillar project feasibility study are as follows:

- initial capex of ZAR40.0m (cf ZAR15.4m previously);
- total capex of ZAR70.0m (cf ZAR56m previously);
- throughput rate of 11.5ktpm producing 30koz per annum, on average, with peak production of 39koz in the second year of operations;
- An average all-in sustaining cost of approximately ZAR415,000/kg, or US$900/oz over the life of the project (assuming a forex rate of ZAR14.30/US$);
- A three-year life-of-mine; and
- a project pre-tax NPV of US$25.8m (cf US$19.4m previously), which equates to a value of 1.3 US cents per share, at a 10% real discount rate and an assumed gold price of ZAR600,000/kg, or US$1,305/oz.

Edison has now incorporated these assumptions into our financial forecasts for FY20 and beyond (including a small reduction in anticipated output from Barberton, from 84koz to 79koz), with the result that our normalised HEPS forecast for Pan African's next financial year has increased by 9.3%, to 1.88p/share, as shown below:

Exhibit 6: Edison changes to PAF FY20 normalised HEPS forecast (pence/share)



Source: Edison Investment Research

Note that FY20 forecasts are predicated on an unchanged gold price forecast of US$1,372/oz.

At the same time that it approved the Evander 8 Shaft pillar project, the group concluded that it would not pursue mining the near-surface Royal Sheba resource on a standalone basis, but that it would instead upgrade the existing Barberton Mines processing plant infrastructure to take Royal Sheba ore. Among other things, this will also help to expedite the environmental licensing process, shorten the timeline to production, enhance returns and negate the need for external capital funding.

Updated group valuation

Including its other potential growth projects (ie the Fairview sub-vertical shaft project and Egoli) and assets (ie the residual Evander underground resource and its shareholding in MC Mining), a summary of our updated valuation of Pan African is as follows:

Exhibit 7: PAF absolute valuation summary

Project	Current valuation (pence/share)	Previous valuation (pence/share)
Existing producing assets (now including Evander 8 Shaft pillar project)	14.05	12.32
Egoli	3.80	3.59
Fairview Sub-Vertical Shaft Project	0.49	0.47
Royal Sheba (resource-based valuation)	0.34	0.36
MC Mining shares	0.31	0.37
Evander 8 Shaft pillar project	N/A	0.58
Sub-total	**19.00**	**17.69**
EGM underground resource	0.17–4.15	0.17–4.05
Total	**19.17-23.15**	**17.86–21.74**

Source: Edison Investment Research.

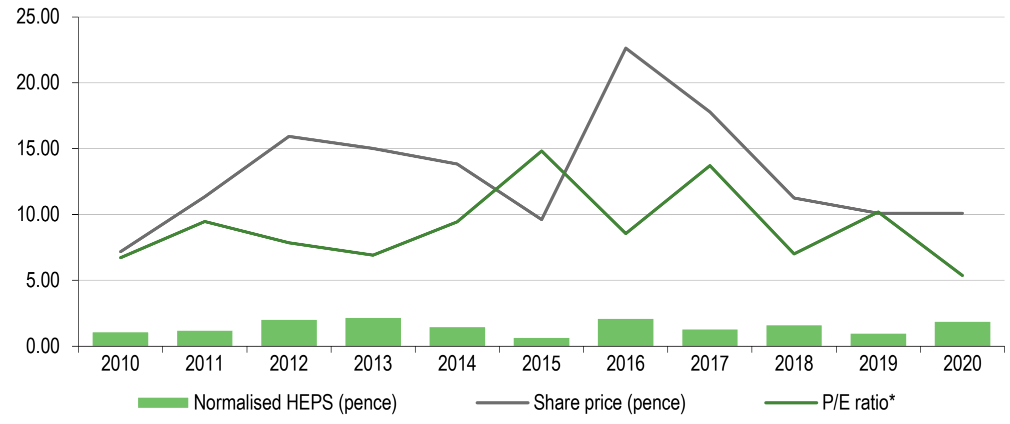
Note that the valuation changes for Egoli and the Fairview sub-vertical shaft project reflect the effect of foreign exchange rate changes only, whereas the change in the implied valuation of the Evander 8 Shaft pillar project reflects both foreign exchange rate changes and the fact that the timing of the project has been accelerated relative to our previous expectations. The decline in the value of PAF’s shareholding of 13.1m MC Mining shares reflects merely the fall in the latter’s share price from c ZAR9.99/share in November 2018 to ZAR8.49/share at the time of writing (adjusted into sterling at the appropriate FX rate).

Historical relative and current peer group valuation

Historical relative valuation

Exhibit 8, below, depicts PAF’s average share price in each of its financial years from FY10 to FY18, and compares this with normalised HEPS in the same year. For FY19 to FY20, the current share price (of 10.1p) is compared with Edison’s forecast normalised HEPS for FY19 to FY20. As is apparent from the graph, PAF’s price to normalised HEPS ratio of 10.2x for FY19 (based on our forecasts – see Exhibit 14, below) is close to the average of its recent historical range of 9.4x from FY10–18. However, assuming it meets Edison’s (and consensus) earnings expectations for FY20, this measure of value is set to fall to a record low for the period of just 5.4x (see below):

Exhibit 8: PAF historical price to normalised HEPS ratio, FY10–FY20e



Source: Edison Investment Research. Note: *Completed historical 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 9.4x in the period FY10–18 is deemed 'correct', then its share price should be 9.3p in FY19 and 17.6p in FY20 (cf 16.1p previously).

Relative peer group valuation

Over the next two years PAF remains cheaper than its South Africa- and London-listed gold mining peers on at least two-thirds of valuation measures (20 out of 30 individual measures in the table below), regardless of whether Edison or consensus forecasts are used.

Exhibit 9: Comparative valuation of PAF with South African and London peers

	EV/EBITDA (x)		P/E (x)		Yield (%)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
AngloGold Ashanti	5.0	4.7	16.3	12.3	0.8	0.9
Gold Fields	4.7	3.7	12.6	5.6	0.0	5.5
Sibanye	3.1	2.3	7.5	4.3	0.0	0.0
Harmony	3.3	2.7	15.6	8.0	0.0	0.0
Centamin	4.8	4.2	21.4	18.1	3.6	5.1
Average (excluding PAF)	**4.2**	**3.5**	**14.7**	**9.7**	**0.9**	**2.3**
PAF (Edison)	6.4	3.6	10.2	5.4	3.0	5.5
PAF (consensus)	5.0	4.0	6.6	4.8	4.2	5.9

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 19 June 2019.

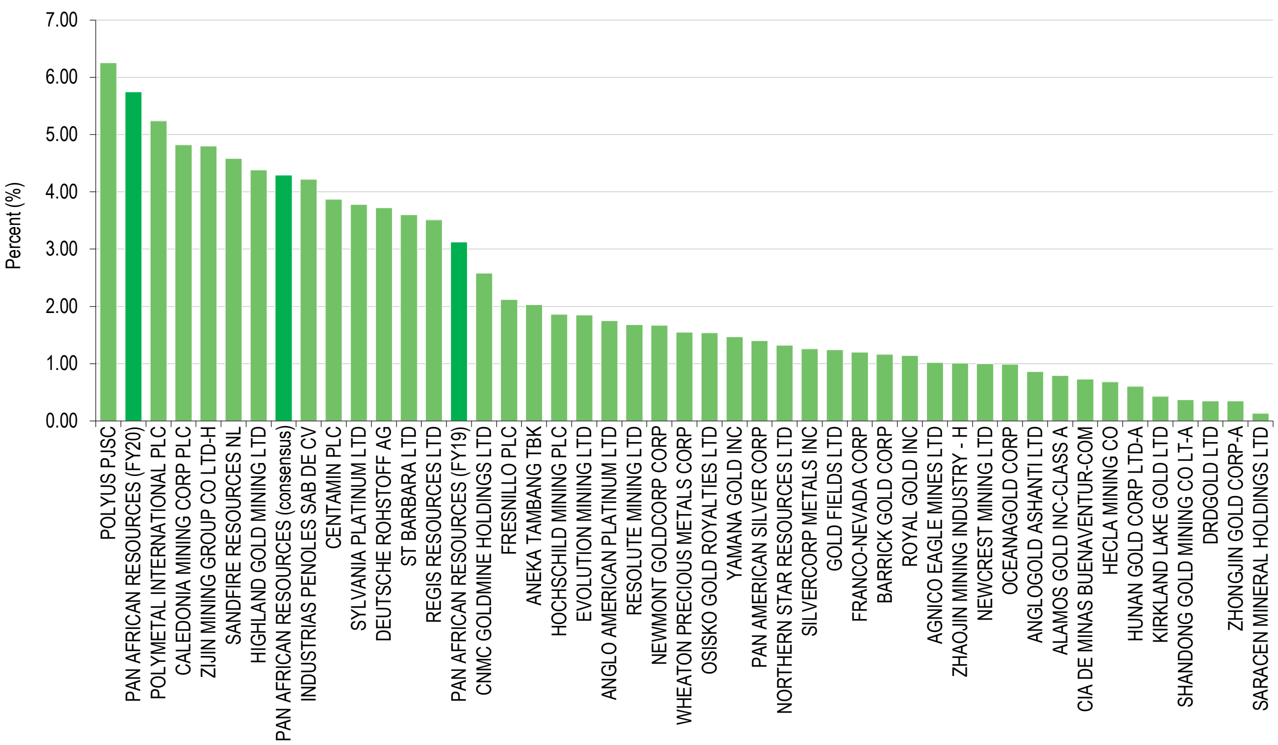
Dividend

PAF has a target dividend pay-out ratio of 40% of net cash generated by operating activities, after allowing for the effect of sustaining capital on cash flow, contractual debt repayments and one-off items. After sustaining the costs related to the Evander underground closure in FY18, the Pan African board elected not to recommend a final dividend for that year. However, it stated that recommencing distributions to shareholders is a priority for the future.

Cash flows before financing activities were negative £14.3m in H119 and we forecast that they will be positive £8.0m in H219 under the influence of an improved operating performance, a better gold price and a steady rand. As a result, we expect group net indebtedness at the end of FY19 to be broadly similar to that at the end of FY18 (ie £97.3m vs £91.0m). Nevertheless, that represents a decline relative to our previous estimate of £94.0m – primarily as a result of the acceleration of capex relating to the Evander 8 Shaft pillar project into FY19. Given that PAF's dividend policy is for a pay-out of 40% of net cash generated by operating activities after allowing for the effect of sustaining capital (but not expansionary capital other than value-accretive new growth projects), we believe there is scope for the board to recommend a dividend of up to 0.30p/share this year, albeit that represents a decline compared to our previous estimate of 0.38p/share. Self-evidently, the extent to which a dividend may (or may not) be declared will depend on developments between now and September 2019 as well as due regard for PAF's banking covenants (see Exhibit 13). However, given that any dividend declared for FY19 would be paid in FY20, such a distribution would not affect the ratios pertinent to PAF's banking covenants for end-FY19, but rather H120 (ie at 31 December 2019), when we forecast that PAF will be in the process of paying down net debt at a rate in excess of £20m per annum (excluding dividend distributions).

If our dividend forecast is correct, however, then Pan African will still have a dividend yield in the top third of the 45 ostensibly precious metals companies paying dividends to shareholders over the course of the next 12 months. Note that there is no certainty nor guidance that an FY19 dividend will be paid; however, we observe that, *in extremis*, Pan African could fund our forecast FY19 dividend via the realisation of its shareholding in MC Mining. Should it pass its dividend for FY19 however, then we would regard it as an almost racing certainty (all other things being equal) that it would make a full distribution to shareholders in FY20 (see Exhibit 14, below). If it were to pass its dividend in FY19, it would also create the possibility that the company could initiate an interim dividend payment to shareholders in H120 instead.

Exhibit 10: Global precious metal mining companies ranked by forecast dividend yield, PAF highlighted (%)



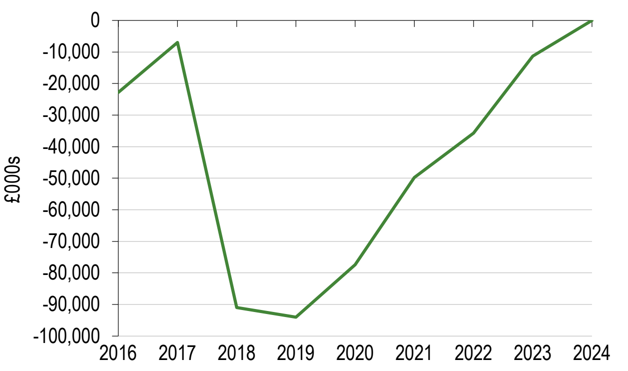
Source: Refinitiv for peers and PAF (consensus), Edison Investment Research for PAF FY19 and FY20. Note: Consensus data for peers priced 4 June 2019.

Financials

PAF had net debt of £102.7.0m on its balance sheet as at 31 December 2018 (cf £91.0m as at June 2018, £42.2m as at December 2017 and £7.0m as at June 2017). As such, net debt equated to a gearing (net debt/equity) ratio of 82.2% (cf 78.6% as at end-FY18) and a leverage (net debt/[net debt + equity]) ratio of 45.1% (cf 44.0% as at end-FY18).

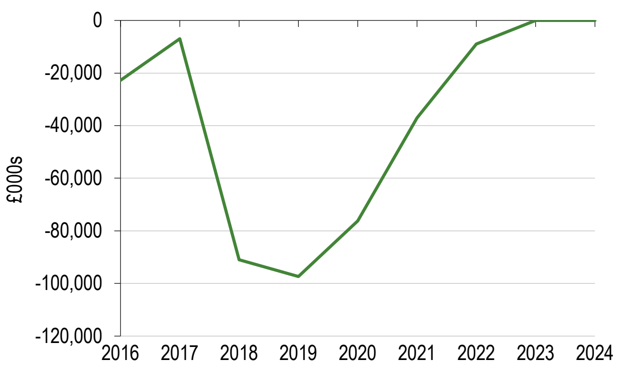
As of the current time, the most intense phase of capex relating to Elikhulu has now been completed and we expect group capex to decline sharply to ZAR193.0m in H219 compared to ZAR585.9m in H119 – albeit the decline has been slightly moderated by the acceleration of Evander 8 Shaft pillar project capex into H219 ahead of first gold in H120. Hereafter however, we expect Pan African to be strongly cash-generative (including contributions from the Evander 8 Shaft pillar project), such that it will pay down net debt at a rate in excess of £20m per annum (before dividend distributions), as shown in Exhibit 12, below:

Exhibit 11: PAF estimated funding requirement, FY16 to FY24e (previous)



Source: Edison Investment Research, Pan African Resources

Exhibit 12: PAF estimated funding requirement, FY16 to FY24e (current)



Source: Edison Investment Research, Pan African Resources

As a consequence of the increased cash flows during the period FY20–24, we therefore now predict that Pan African will be net debt free by the end of FY23, cf FY24 previously.

Debt is principally financed via a ZAR1bn revolving credit facility (£54.3m at current exchange rates) plus a ZAR1bn term loan facility relating to the Elikhulu project and a banking facility. Principal on the Elikhulu facility is payable in equal instalments until maturity in June 2024, while the revolving credit facility (RCF) itself has been restructured to extend its maturity from mid-2020 previously to at least beyond mid-2024 currently. The group's RCF debt covenants and their actual recorded levels within recent history are as follows:

Exhibit 13: PAF group debt covenants

Measurement	Constraint	H119 (actual)	FY18 (actual)	H118 (actual)	FY17 (restated)	FY17 (actual)	H117 (actual)	FY16* (actual)	H116 (actual)
Net debt:equity	Must be less than 1:1	0.85	0.78	0.19:1	0.02:1	0.01:1	0.17:1	0.35:1	0.50:1
Net debt:EBITDA	Must be less than 2.5:1	3.24	3.73	2.25:1	0.08:1	0.05:1	0.48:1	0.12:1	0.13:1
Interest cover ratio	Must be greater than four times	3.64	4.61:1	4.62:1	19.32:1	10.00	21.99	23.98	18.08
Debt service cover ratio	Must be greater than 1.3:1	2.85	3.84:1	1.85:1	9.11:1	N/A	N/A	N/A	N/A

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

Note that, with the agreement of its bankers, PAF's net debt:EBITDA covenant is measurable only on 31 December 2019 to accommodate the construction of the Elikhulu project, while the interest cover ratio was reduced to 2.5:1 as at December 2018 (with the requirement that it be 4:1 thereafter).

Miscellaneous

Accounting

Management has announced that the group's presentation currency is expected to change to US dollars, from sterling, for Pan African's results for the full year to end-June 2019. Note that our forecasts in this note nevertheless continue to be presented in sterling to be consistent with historical practice.

Exhibit 14: Financial summary

£000s	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue	79,051	100,905	133,308	154,202	140,386	168,404	167,759	154,200	163,122	202,571
Cost of sales	(45,345)	(46,123)	(71,181)	(106,394)	(110,413)	(108,223)	(134,007)	(138,800)	(113,847)	(118,655)
Gross profit	33,705	54,783	62,127	47,808	29,973	60,181	33,752	15,400	49,275	83,916
EBITDA	28,540	45,018	53,276	44,165	28,448	57,381	32,417	14,800	46,610	81,843
Operating profit (before GW and except.)	25,655	41,759	47,278	34,142	18,110	46,925	21,924	3,800	35,532	67,882
Intangible amortisation	0	0	0	0	0	0	0	0	0	0
Exceptionals	0	(48)	7,232	(12)	(198)	(12,183)	(1,248)	(122,300)	(1,400)	(1,252)
Other	0	0	0	0	0	0	0	0	0	0
Operating profit	25,655	41,711	54,510	34,130	17,912	34,742	20,676	(118,500)	34,132	66,631
Net interest	762	516	197	(191)	(2,109)	(1,006)	(2,523)	(1,400)	(9,555)	(8,760)
Profit before tax (norm)	26,417	42,274	47,475	33,951	16,001	45,919	19,401	2,400	25,977	59,122
Profit before tax (FRS 3)	26,417	42,226	54,707	33,939	15,803	33,736	18,153	(119,900)	24,577	57,871
Tax	(9,248)	(12,985)	(12,133)	(7,155)	(4,133)	(8,234)	(243)	26,600	(6,844)	(22,886)
Profit after tax (norm)	17,169	29,290	35,342	26,796	11,868	37,685	19,158	29,000	19,133	36,237
Profit after tax (FRS 3)	17,169	29,242	42,574	26,785	11,670	25,502	17,910	(93,300)	17,733	34,985
Average number of shares outstanding (m)	1,432.7	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)	1.20	2.03	2.18	1.46	0.64	2.08	1.22	1.60	0.99	1.88
EPS - FRS 3 (p)	1.20	2.02	2.63	1.47	0.64	1.41	1.14	(5.15)	0.92	1.81
Dividend per share (p)	0.51	0.00	0.83	0.82	0.54	0.88	0.45	0.00	0.30	0.56
Gross margin (%)	42.6	54.3	46.6	31.0	21.4	35.7	20.1	10.0	30.2	41.4
EBITDA margin (%)	36.1	44.6	40.0	28.6	20.3	34.1	19.3	9.6	28.6	40.4
Operating margin (before GW and except.) (%)	32.5	41.4	35.5	22.1	12.9	27.9	13.1	2.5	21.8	33.5
BALANCE SHEET										
Fixed assets	97,281	86,075	249,316	223,425	220,150	230,676	273,635	245,100	275,278	271,623
Intangible assets	38,229	23,664	38,628	37,040	37,713	38,682	41,425	49,200	50,936	52,673
Tangible assets	59,052	62,412	209,490	185,376	181,533	190,725	224,687	192,800	221,241	215,850
Investments	0	0	1,199	1,010	905	1,269	7,523	3,100	3,100	3,100
Current assets	15,835	41,614	26,962	23,510	17,218	22,016	37,090	20,000	17,634	38,427
Stocks	1,457	1,869	6,596	5,341	3,503	4,399	7,583	2,700	4,113	6,759
Debtors	4,254	6,828	15,384	12,551	10,386	14,891	14,813	14,800	11,720	14,445
Cash	10,124	19,782	4,769	5,618	3,329	2,659	9,447	700	0	15,422
Current liabilities	(8,960)	(11,062)	(24,066)	(24,012)	(22,350)	(32,211)	(31,251)	(33,400)	(48,872)	(41,017)
Creditors	(8,960)	(11,062)	(23,202)	(19,257)	(17,301)	(25,230)	(27,105)	(28,200)	(38,040)	(35,817)
Short-term borrowings	0	0	(864)	(4,755)	(5,049)	(6,981)	(4,146)	(5,200)	(10,832)	(5,200)
Long-term liabilities	(13,410)	(14,001)	(80,004)	(63,528)	(67,850)	(69,506)	(62,893)	(115,900)	(116,356)	(117,125)
Long-term borrowings	(181)	(869)	(11,133)	(8,141)	(16,313)	(18,456)	(12,290)	(86,500)	(86,500)	(86,500)
Other long-term liabilities	(13,228)	(13,132)	(68,871)	(55,387)	(51,537)	(51,049)	(50,603)	(29,400)	(29,856)	(30,625)
Net assets	90,746	102,626	172,208	159,396	147,167	150,975	216,581	115,800	127,684	151,907
CASH FLOW										
Operating cash flow	31,968	49,092	61,618	45,996	26,423	47,130	29,945	(1,900)	52,792	68,085
Net Interest	762	516	314	(606)	(2,109)	(1,006)	(2,141)	(1,400)	(9,555)	(8,760)
Tax	(10,743)	(11,616)	(13,666)	(8,536)	(3,943)	(7,777)	(8,003)	0	(5,988)	(22,116)
Capex	(21,712)	(17,814)	(27,197)	(21,355)	(19,554)	(14,097)	(36,748)	(94,200)	(43,581)	(10,306)
Acquisitions/disposals	0	(1,549)	(96,006)	0	(760)	(30,999)	8,364	4,400	0	0
Financing	1,545	259	47,112	349	(235)	15,207	34,638	9,800	0	0
Dividends	(5,376)	(7,416)	0	(14,684)	(15,006)	(9,882)	(13,290)	(8,200)	0	(5,849)
Net cash flow	(3,557)	11,471	(27,826)	1,164	(15,184)	(1,425)	12,764	(91,500)	(6,332)	21,054
Opening net debt/(cash)	(12,756)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	6,989	91,000	97,332
Exchange rate movements	925	(1,813)	594	(839)	(276)	812	238	(1,447)	0	0
Other	(181)	(688)	1,090	(375)	4,705	(4,131)	2,787	8,936	0	0
Closing net debt/(cash)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	6,989	91,000	97,332	76,278

Source: Company sources, Edison Investment Research

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