Pan African Resources

Back to where it belongs

Operational update

Metals & mining

On 10 July, Pan African Resources (PAF) released an operational update for the year to end June 2020 detailing production of 179,575oz gold in the year to June 2020. While production in H220 was (inevitably) lower than in H120 (see Exhibit 1) owing to the coronavirus, full-year production was nevertheless 4.1% higher than in FY19, 2.0% higher than guidance and 2.1% higher than our forecast (see Exhibit 2). In addition, PAF announced that net debt had declined from US$123.7m in December 2019 to US$62.5m in June 2020 (cf May guidance of US$70.0m – company calculation) – a reduction of US$61.2m or 49.5% within the space of six months. Self-evidently, continued debt reductions at this rate could see PAF net debt free within the next 12 months. This note updates our earnings forecasts and also our valuation for now known production in FY20, as well as changes in the macro-environment and the increase to our long-term estimated gold price (see A golden future, published on 11 June 2020).

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/18	145.8	29.3	1.31	0.00	26.1	N/A
06/19	218.8	37.1	1.64	0.15	20.9	0.4
06/20e	274.2	68.4	2.98	1.52	11.5	4.5
06/21e	325.0	137.8	6.47	1.75	5.3	5.1

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

Net debt free in early FY22

In the event, Pan African's production for FY20 was only 2.9% below its pre-coronavirus guidance of 185,000oz. Of more significance, the pace of debt reduction equates to over US$10m per month. Maiden production guidance for FY21 is 190,000oz, which we estimate could be achieved at a gross margin as high as 50.6%. Even allowing for an FY20 dividend payable in December that could be as high as 1.52c/share (or US$29.4m in aggregate) and some rebound in working capital, we estimate that (all other things being equal), Pan African should be net debt free early in FY22 (ie in about 12 months' time).

Valuation: 42.14 cps cf 28.28c previously plus upside

In the aftermath of its announcement, our absolute valuation of PAF has increased materially from 28.28c/share to 42.14c/share (33.13p/share) – albeit mostly on account of the increase in our long-term gold price forecast (see pages 10–11). To this must then be added the value of c 19.2m underground Witwatersrand ounces, which could lie anywhere in the range of 0.22–5.24c per share, depending on market conditions. In the meantime, if PAF's historical average price to normalised EPS ratio of 9.6x in the period FY10–19 is applied to our respective forecasts, its share price could have been expected to be 23.0p in FY20, rising to 48.7p in FY21. Pan African also remains cheaper than its South African- and London-listed gold mining peers on at least 76% of common valuation measures regardless of whether Edison or consensus forecasts are used. Finally, based on our assumptions, its dividend yield in FY20 should be well within the top 10 of the 56 precious metals companies expected to pay a dividend over the next 12 months (see Exhibit 14 on page 13), with the potential to rise again in FY21.

28 July 2020

Price	26.90p
Market cap	£601m

ZAR20.9328/£, ZAR16.4548/US$, US$1.2720/£

Net debt (US$m) at end-December 2019 excluding estimated ZAR83.7m (US$6.0m) of MC Mining shares (formerly Coal of Africa)	130.7
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	54.6	83.0	133.9
Rel (local)	55.7	74.2	185.2
52-week high/low		26.9p	9.0p

Business description

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

Next events

FY20 results	September 2020
AGM	November 2020
Dividend payment date	December 2020

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Edison profile page

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FY20 and H220 production and highlights

On 10 July Pan African released an operational update for the year to end June 2020. The release detailed production from each of its assets for the year, as well as noting that Barberton had achieved three million fatality-free shifts and that net debt had declined from US$123.7m in December 2019 to US$62.5m in June 2020 (company calculation) – a reduction of US$61.2m or 49.5% within the space of six months. A summary of the output of Pan African's assets during the year is provided in the table below, including the production in H220 implied by the FY20 numbers.

Exhibit 1: PAF group-wide production, actual and forecast, FY15–H120 (oz)

Operation	FY16	FY17	H118	H218	FY18	H119	H219	FY19	H120	H220	H220/H120 (%)	FY20
Barberton UG	84,690	71,763	32,159	40,966	73,125	38,550	36,806	75,356	36,737	31,565	-14.1	68,302
BTRP	28,591	26,745	8,452	9,052	17,504	12,006	12,001	24,007	10,619	9,534	-10.2	20,153
Barberton	**113,281**	**98,508**	**40,611**	**50,018**	**90,629**	**50,556**	**48,807**	**99,363**	**47,356**	**41,099**	**-13.2**	**88,455**
Evander UG	73,496	43,304	32,734	15,831	48,565	8,821	8,058	16,879	11,553	10,518*	-9.0	22,071
ETRP	18,151	29,473	11,937	9,313	21,250	6,345	3,654	9,999	4,731	4,739*	+0.2	9,471
Evander	**91,647**	**72,777**	**44,671**	**25,144**	**69,815**	**15,166**	**11,712**	**26,878**	**16,284**	**15,257**	**-6.3**	**31,541**
Elikhulu	0	0	0	0	0	15,292	30,909	46,201	29,301	30,278	+3.3	59,579
Total	**204,928**	**173,285**	**85,282**	**75,139**	**160,444**	**81,014**	**91,428**	**172,442**	**92,941**	**86,634**	**-6.8**	**179,575**

Source: Edison Investment Research, Pan African Resources. Note: Numbers may not add up owing to rounding. *Estimated. UG = underground. Evander Tailings Retreatment Project (ETRP) throughput largely processed via Elikhulu plant from H219 onwards.

While H220 production overall was 6.8% lower than in H120, FY20 production was nevertheless higher than a) in the previous year, b) updated company guidance (May 2020) and c) our expectations (see Exhibit 2, below). Self-evidently, this performance was achieved during the period in which the most severe coronavirus-related lockdown restrictions were in place in South Africa. Within this context, output at PAF's Barberton underground mine was particularly notable, outperforming the updated guidance by 4,302oz (or 6.7%) and Edison's forecast for the year by 3,398oz (or 5.2%):

Exhibit 2: Pan African FY20 production cf guidance and Edison forecasts (%)

Production asset	Prior (pre-coronavirus) company guidance (oz)	March 2020 Edison forecast* (oz)	Updated guidance (oz)	May 2020 Edison forecast (oz)	FY20 actual (oz)	FY20a vs updated guidance (%)
BTRP	20,000	20,619	21,000	21,000	20,153	-4.0
Elikhulu	65,000	65,199	59,000	58,992	59,579	+1.0
Barberton underground	80,000	77,737	64,000	64,904	68,302	+6.7
Evander underground & tolling	20,000	27,053	31,000	31,000	31,541	+1.7
Total	**185,000**	**190,608**	**175,000**	**175,896**	**179,575**	**+2.6**

Source: Pan African Resources, Edison Investment Research. Note: Totals may not add up owing to rounding. *See our note, H120 confirms FY20 forecasts, published on 2 March 2020.

South African national lockdown

South Africa detected its first new coronavirus infection on 5 March. In the following few weeks, the epidemic followed a typical exponential curve and on 15 March, the country's president, Cyril Ramaphosa, declared a national state of emergency banning visitors from high-risk countries, stopping large gatherings, closing more than half of its land borders and shutting schools. On 23 March, the South African government made the decision to lock down the country for all but 'essential services'. On 14 April, it extended the lockdown by two weeks, until 30 April. As an adjunct, however, from 16 April, it allowed underground mining operations to return to 50% capacity from a position of care & maintenance, albeit observing strict health protocols. From 1 May, surface operations were able to return to 100% capacity. Underground mines were required to remain at

50% capacity, albeit subject to the discretion of the Mining and Energy Minister Gwede Mantashe, who had the authority to sanction production above this level.

As far as Pan African was concerned, during the lockdown, 'essential services' included security, pumping and ventilation activities, metallurgical plant maintenance, inspection of underground workings, management and monitoring of tailings deposition facilities, waste management and water treatment facilities and other health and safety-related services. As part of essential services, the group undertook to conduct limited surface re-mining and processing activities at its Elikhulu Tailings Retreatment Plant and at its Barberton Tailings Retreatment Plant. As a result, during the lockdown, Pan African's group surface mining operations operated at c 70% of normal capacity, while Barberton Mines resumed limited operations at certain high-grade sections of its Fairview operation in order to ensure the required minimum feed for its BIOX processing plant. Of the group's total staff and contractor complement, only 26% (excluding security staff) were involved in essential services. The South African Department of Mineral Resources & Energy approved all of the group's activities during the period, subject to compliance with, and adherence to, all relevant laws and regulations.

As soon as the lockdown was announced, Pan African suspended its erstwhile production guidance of 185,000oz for FY20 (see Exhibit 2). However, on 11 May, it provided an indication of output for its assets for the full year of 176,000oz on the assumption that surface retreatment plants operated at or close to capacity for the remainder of the year and underground mines operated at 50% of capacity. Among other things, the fact that output for the year exceeded guidance and that Barberton, in particular, exceeded expectations suggests that it was able to operate somewhat above 50% of capacity during the remainder of FY20.

The situation now

As the South African lockdown has eased, however, coronavirus cases have begun to increase once again. In mid-June, the country recorded a new record daily number of cases. In addition, the epicentre of the epidemic appears to be shifting away from the Cape, with a quarter of new cases reported in and around Johannesburg. At the time, the number of cases in South Africa was 111,796 of which 2,200 had died. Now, the number of cases has increased to around 445,000 (ie above the UK) and is among the top 10 in the world – albeit the number of official deaths has been limited to 6,769 (ie a death rate of 1.5% cf a global death rate of c 4.0%). In part, this may be attributed to South Africa's relatively youthful population. Nevertheless, at the time of writing, the official death toll in South Africa remains an order of magnitude below other badly affected countries such as the UK (albeit with the proviso that it appeared to experience c 17,000 'excess' deaths from natural causes between early May and mid-July, suggesting that more people may be dying of COVID-19 than are being captured in the official figures).

H220 estimates

Macroeconomic environment

In the immediate aftermath of the lockdown, the rate of exchange of the rand blew out relative to the US dollar, rising to a high of ZAR19.0815/USD in the period from March to May 2020 (cf an average rate of ZAR14.6950/USD recorded in H120). It has since recovered somewhat, to ZAR16.4548/USD, but nevertheless remains 12.0% 'below' its rate in H120. Within the same timeframe, the gold price has continued to rise, from US$1,702/oz at the time of our last note (see Roundabouts and swings, published on 12 May 2020) to a high, during the period, of US$1,780/oz, to average US$1,647/oz over the whole six-month period ending 30 June.

Pan African operations

In the wake of the closure of large-scale underground mining operations at Evander in May 2018, Pan African's two most important producing assets are Barberton underground (38% of production in FY20) and Elikhulu (31%).

Barberton underground

Barberton recorded its highest adjusted EBITDA number since H117 in H120 and easily covered capex of ZAR107.0m, despite facing challenging geological conditions at Fairview and the need to put enhanced security initiatives in place to curtail illegal mining activities.

While Barberton was, arguably, the worst affected of all of Pan African's operations in H220 (see Exhibit 1), we believe that its worst depredations will have been significantly mitigated by: a) increased reserve delineation drilling on the 256 platform of the high-grade MRC orebody at Fairview in order to increase confidence in, and predictability of, management's geological models, b) its ability to mill ore from surface sources (requiring a lower complement of workers) and c) its ability to focus on higher-grade areas of the orebody after the establishment of the 257 platform, thereby allowing three platforms to cycle (flexible) production on the MRC. In H120, Barberton recorded its highest level of tonnes milled during a six-month period since at least H112. For the purposes of our forecasts for H220, we have assumed that it has been able to keep its mills substantially filled, albeit by supplementing lost higher-grade underground production with lower-grade material from surface sources. Note that, to the extent that our forecasts for production from surface sources may be optimistic, they are balanced by a restrained estimate of the grade mined from underground (ie if we assumed less production from surface sources in the period, we would have to assume a higher grade, probably from underground sources). At the same time, our working cost estimate of ZAR4,009.60/t milled is composed of a relatively conservative (ie high) estimate of ZAR4,611.50/t for ore from underground sources and ZAR3,367.63/t for ore from surface sources.

Exhibit 3: Barberton underground operational statistics and estimates, H116–H220e

	H116	H216	H117	H217	H118	H218	H119	H219	H120	H220e	H2 vs H1 (%)
Tonnes milled underground (t)	133,890	124,515	123,168	123,747	124,969	112,862	127,858	119,777	117,545	84,130	-28.4
Head grade underground (g/t)	10.90	11.11	9.40	10.20	8.70	12.07	9.60	9.88	9.70*	10.59	9.2
Underground gold contained (oz)	46,921	44,467	37,224	40,574	34,956	43,803	39,463	38,052	36,648	28,645	-21.8
Tonnes milled surface (t)	5,540	4,438	0	0	0	0	12,471	33,158	47,231	78,879	67.0
Head grade surface (g/t)	1.10	1.32	0.00	0.00	0.00	0.00	2.30	1.62	2.16*	2.16	0.0
Surface gold contained (oz)	196	189	0	0	0	0	922	1,729	3,283	5,483	67.0
Tons milled (t)	139,430	128,953	123,168	123,747	124,969	112,862	140,329	152,935	164,776	163,009	-1.1
Head grade (g/t)	10.60	10.77	9.40	10.20	8.70	12.07	8.95	8.09	7.54	6.51	-13.6
Contained gold (oz)	47,117	44,656	37,224	40,574	34,956	43,803	40,386	39,780	39,932	34,128	-14.5
Recovery (%)	92.0	92.0	93.0	91.9	93.0	93.5	94.0	92.5	92.0	92.5	0.5
Production underground (oz)	43,487	40,941	34,471	37,292	32,159	40,966	37,735	35,129	36,737	31,565	-14.1
Production calcine dumps/surface ops (oz)	130	132	0	0	0	0	815	1,677	0	0	N/A
Total production (oz)	43,617	41,073	34,471	37,292	32,159	40,966	38,550	36,806	36,737	31,565	-14.1
Recovered grade (g/t)	9.73	9.91	8.70	9.37	8.00	11.29	8.54	7.49	6.93	6.02	-13.1
Gold sold (oz)	43,617	41,073	34,471	37,292	32,159	40,966	37,829	37,527	36,737	31,565	-14.1
Average spot price (US$/oz)	1,113	1,221	1,268	1,239	1,288	1,317	1,220	1,306	1,477	1,647	11.5
Average spot price (ZAR/kg)	486,567	605,265	570,251	526,341	554,361	521,029	556,770	596,180	698,031	882,504	26.4
Total cash cost (US$/oz)	681	708	967	940	1,145	981	996	1,097	1,159	1,242	7.2
Total cash cost (ZAR/kg)	297,877	351,358	434,999	399,081	492,826	390,220	454,164	500,214	547,594	665,734	21.6
Total cash cost (US$/t)	213.09	225.38	270.74	283.19	294.62	356.03	268.42	269.10	258.39	240.59	-6.9
Total cash cost (ZAR/t)	2,898.00	3,480.81	3,787.00	3,740.66	3,945.00	4,405.46	3,860.00	3,817.67	3,797.00	4,009.60	21.5
Implied revenue (US$000)	48,546	50,288	43,709	46,640	41,421	53,057	46,151	49,325	54,261	51,988	-4.2
Implied revenue (ZAR000)	660,091	774,505	611,400	616,296	554,499	660,698	655,098	699,398	797,598	866,419	8.6
Implied revenue (£000)	31,671	34,950	34,207	37,008	31,422	38,722	35,652	38,120	43,061	41,237	-4.2
Implied cash costs (US$000)	29,711	29,064	33,347	35,043	36,819	40,182	37,667	41,155	42,576	39,218	-7.9
Implied cash costs (ZAR000)	404,068	448,861	466,437	462,895	493,003	497,209	534,400	583,855	625,654	653,600	4.5
Implied cash costs (£000)	19,398	20,221	26,091	27,814	27,900	29,269	29,102	31,803	33,796	31,183	-7.7
Reported adjusted EBITDA (ZAR000)	180,000	242,400	240,300	168,300	72,300	174,700	137,200	140,700	205,100		

Source: Pan African Resources, Edison Investment Research. Note: *Estimated.

Elikhulu

Elikhulu produced c 32% of Pan African's gold in H120, but accounted for 47% of group adjusted EBITDA of ZAR712.1m, while simultaneously accounting for only a very small fraction (7%, or ZAR13.8m) of group capital expenditure. Of note was the continued high level of metallurgical recoveries in H120, despite operations being severely affected by heavy rains (eg 36cm/14" in two days) in December. However, a new satellite pump station was successfully commissioned at the end of 2019, which was expected to increase plant feed grades and plant feed rates for the remainder of the financial year.

We therefore expect the grade in H220 to have been sustained at a relatively elevated level as operations re-mined through a high-grade area of the dumps. Within this context, it is notable that PAF reported that January had been a month of record production at Elikhulu, with output of almost 180kg (5,787oz) of gold which, pro rata, would have implied a head grade of 0.31g/t at a maximum throughput rate of 1.2Mt and a steady (life of mine) metallurgical recovery of 47.8%.

Exhibit 4: Elikhulu operational statistics and estimates, H119–H220e						
	H119	H219	H120	H220e** (previous)	H220 (current)	FY20 (current)
Tonnes processed tailings (t)	3,534,278	7,313,931	6,211,028	7,200,000	6,465,767	12,676,795
Head grade tailings (g/t)	0.30	0.26	0.28*	0.28	0.30	0.29
Tailings gold contained (oz)	34,089	60,199	56,348	65,243	63,383	119,731
Recovery (%)	44.0	51.3	52.0	47.8	47.8	49.8
Production tailings (oz)	15,292	30,909	29,301	31,167	30,278	59,579
						0
Total production (oz)	15,292	30,909	29,301	31,167	30,278	59,579
Recovered grade (g/t)	0.13	0.13	0.15	0.13	0.15	0.15
Gold sold (oz)	15,292	30,173	29,301	31,167	30,278	59,579
Average spot price (US$/oz)	1,216	1,306	1,451	1,565	1,647	1,551
Average spot price (ZAR/kg)	563,250	596,180	685,680	743,438	882,504	786,683
Total cash cost (US$/oz)	517	575	621	516	562	590
Total cash cost (ZAR/kg)	239,639	262,650	293,608	245,155	300,933	297,341
Total cash cost (US$/t)	2.24	2.43	2.93	2.23	2.63	2.78
Total cash cost (ZAR/t)	32.00	33.70	43.00	33.01	43.83	43.47
Implied revenue (US$000)	18,595	39,009	42,516	48,768	49,868	92,384
Implied revenue (ZAR000)	267,899	554,999	624,898	720,677	831,093	1,455,991
Implied revenue (£000)	14,365	30,145	33,740	37,545	39,556	73,296
Implied cash costs (US$000)	7,912	17,742	18,209	16,082	17,005	35,214
Implied cash costs (ZAR000)	114,000	246,492	267,600	237,650	283,402	551,002
Implied cash costs (£000)	6,208	13,421	14,455	12,382	13,521	27,976
Adjusted EBITDA (ZAR000)	145,100	296,300	333,100			

Source: Pan African Resources, Edison Investment Research. Note: *Estimate; **See our note, H120 confirms FY20 forecasts, published on 2 March 2020.

Evander underground

For the purposes of our Evander underground forecasts, we have assumed that material treated from surface source was similar in H220 compared with H120 (see Exhibit 1, above). In consequence of that assumption, our forecasts for Evander underground are as shown in Exhibit 5, below.

In the meantime, shaft tower construction was completed between 14 and 16 Levels of the 8 Shaft Pillar project and operations there were reported to have achieved steady-state production in June – albeit they had previously been expected to achieve this milestone in April. With all nine underground stoping crews now scheduled to have been migrated over to the project, management expects Evander underground to contribute, on average, 30,000oz of production pa to the group over the next three financial years at an all-in sustaining cost (AISC) of c US$1,000/oz and therefore at materially higher margins than the previous remnant underground mining and vamping operations.

Exhibit 5: Evander operational statistics and estimates, H119–H220e

	H119	H219	H120	H220e** (previous)	H220e (current)	FY20e (current)
Tonnes milled (t)	37,347	26,624	30,044	69,000	43,125	73,169
Head grade (g/t)	7.82	10.01	12.59*	7.13	7.74	9.73
Contained gold (oz)	9,384	8,572	12,161	15,816	10,733	22,894
Recovery (%)	94	94	95	98	98	96.4
Underground production (oz)	8,821	8,058	11,553	15,500	10,518	22,071
Production from surface sources (oz)	0	0	0	0	0	0
Total production (oz)	8,821	8,058	11,553	15,500	10,518	22,071
Recovered grade (g/t)	7.35	9.41	11.96	6.99	7.59	9.38
Gold sold (oz)	8,821	8,058	9,214	15,500	10,518	19,732
Average spot price (US$/oz)	1,214	1,306	1,451	1,565	1,647	1,555
Average spot price (ZAR/kg)	565,367	596,180	685,658	743,438	882,504	790,586
Total cash cost (US$/oz)	1,711	1,814	1,420	1,200	1,395	1,575
Total cash cost (ZAR/kg)	780,357	828,170	671,299	570,000	747,435	711,911
Total cash cost (US$/t)	404.07	549.62	546.00	269.50	340.22	424.71
Total cash cost (ZAR/t)	5,733	7,796	6,404	3,983	5,670	5,971
Implied revenue (US$000)	10,709	10,525	13,370	24,254	17,323	30,693
Implied revenue (ZAR000)	155,115	146,084	196,499	358,412	288,706	485,205
Implied revenue (£000)	8,272	8,134	10,610	18,672	13,741	24,351
Implied cash costs (US$000)	15,091	14,633	16,404	18,595	14,672	31,076
Implied cash costs (ZAR000)	214,100	207,564	192,402	274,797	244,519	436,921
Implied cash costs (£000)	11,659	11,301	10,393	14,318	11,666	22,059
Adjusted EBITDA (ZAR000)	-58,985	26,085	64,900			

Source: Pan African Resources, Edison Investment Research. Note: *Estimate. **See our note, H120 confirms FY20 forecasts, published on 2 March 2020.

Critical to the success of the 8 Shaft Pillar project is the requirement to de-stress the orebody while mining is underway, to which end Pan African has already commissioned a grout plant at surface with the ability to pump a mixture of concrete and waste rock underground to selectively support areas of the orebody. At a recent site visit to the 8 Shaft Pillar project at the time of the South African Mining Indaba in February, attended by Edison, the short distance between the shaft bottom and the stoping areas was immediately apparent (ie 10 minutes – in sharp contrast to PAF's previous operations at 24 Level at 8 Shaft, which had an approximate 100-minute commute to the working faces). In addition, the working faces are close to an intake airway (negating the need for refrigeration) and the ore will only need to be handled about four times before reaching surface (cf 22 times previously) and will require only c 4km of tramming (cf c 14km previously). This last point is significant in that Evander has a high percentage of fine gold in its ore and, historically, it has been estimated that up to 1% of this gold has been lost per kilometre of distance trammed. This combination of fewer transport points and systems is therefore anticipated to have a materially beneficial effect on the overall operation’s mine call factor. The other aspect of the visit that was very apparent was the development in technology around pillar mining and especially the use of pseudo-packs and rapid reaction pit props (rather than matt packs) for 'intelligent' rather than passive ground support – thereby de-risking the operation from both an environmental, social and governance (ESG) and a financial perspective.

Debt service and covenant compliance guarantees

Pan African has two forms of relatively modest hedging contracts currently in place for the purposes of guaranteeing debt serviceability and covenant compliance. The first is a gold loan of 20,000oz (of which 5,000oz only remains outstanding as at end FY20) that locks in a gold price of approximately US$1,325/oz (ZAR770,975/kg at current forex rates), representing 11.1% of group production in FY20. The second is a series of zero cost collar contracts over 50,460oz gold in H220 that cap the likely gold price received by Pan African at ZAR836,000/kg (c US$1,580/oz at current forex rates), but also floor it at ZAR655,000/kg (c US$1,238/oz).

Given the gold price performance in H220, we do now expect the call options written at ZAR836,000/kg to have been exercised in H220. Together with our estimated 'loss' relating to the gold loan, we estimate that the total loss to Pan African in H220 as a result of these contracts will have been c US$10.4m (cf US$11.2m in May – see our note, Roundabouts and swings, published on 12 May), which we have included in 'other income/(expenses)' in our forecasts in Exhibit 6, below. Note that this estimate is based on the maximum rand price of gold of ZAR1,063,715/kg during the period under review, when it is assumed that most call options would have been exercised. In reality, the extent of this loss will depend on the precise timing and terms of each option's exercise relative to the gold price and rand forex rate prevailing at that time. However, it excludes the amortised cost of the options and also the effect of 'unrealised' losses relating to zero cost collar contracts (ie for these purposes, 'written' call options) that are exercisable after 30 June 2020. Note that Pan African reported ZAR29m, or US$2.0m, in realised hedging losses in H120.

Updated H220 and FY20 forecasts

The table below presents our forecasts for PAF in H220 in the light of the (now) known production from each of its assets, as discussed above. Readers are cautioned that production from Evander's 8 Shaft Pillar project will have probably been capitalised until June, when steady-state production was achieved. Given that it is, to all intents and purposes, impossible to judge the proportion of Evander underground production derived from the 8 Shaft Pillar project compared with the remnant underground mining and vamping operations, the table below presents PAF's H220 results as if 100% of production and expenses at Evander underground were recognised via the income statement, rather than capitalised, and therefore may differ in appearance from the results when they are actually announced (expected in September).

Exhibit 6: PAF underlying P&L statement by half-year (H118–H220e) actual and expected

US$000s (unless otherwise indicated)	FY18	FY18 (underlying)	FY18 (as reported)	H119	H119 (restated)	H219 (implied)	FY19	H120	H220e	FY20e
On-mine revenue	207,692	143,445	143,445	96,699	97,531	121,287	218,818	132,849	141,387	274,236
Cost of production	(186,950)	(104,654)	(104,654)	(70,162)	(70,847)	(82,133)	(152,980)	(86,501)	(81,882)	(168,384)
Depreciation	(14,816)	(6,600)	(6,600)	(6,861)	(6,840)	(9,388)	(16,228)	(10,526)	(11,826)	(22,353)
Mining profit	5,926	32,191	32,191	19,676	19,844	29,767	49,611	35,821	47,679	83,500
Other income/(expenses)	(21,146)	(5,657)	(5,657)	(1,812)	(2,077)	(5,181)	(7,258)	(962)	(10,444)	(11,405)
Loss in associate etc	0	0**	0**	0	0	0	0	0	0	0
Loss on disposals	(404)	0	0	0	0	0	0	0	0	0
Impairments	(143,175)	Excl.	(11,045)	0	0	17,854	17,854	109	0	109
Royalty costs	(808)	(539)	(539)	(518)	(474)	120	(354)	(208)	(371)	(579)
Net income before finance	(159,608)	25,995	14,951	17,346	17,293	42,559	59,852	34,761	36,864	71,624
Finances income	2,694	2,020	2,020	388	443	407	850	207		
Finance costs	(4,579)	(4,310)	(4,310)	(5,696)	(5,699)	(7,343)	(13,042)	(7,760)		
Net finance income	(1,886)	(2,290)	(2,290)	(5,307)	(5,256)	(6,936)	(12,192)	(7,553)	(6,958)	(14,511)
Profit before taxation	(161,493)	23,705	12,661	12,039	12,037	35,623	47,660	27,208	29,905	57,113
Taxation	35,828	2,828	2,828	(2,330)	(2,325)	(5,850)	(8,174)	(5,303)	(5,548)	(10,850)
Marginal tax rate (%)	22.2	(11.9)	(22.3)	19.4	19.3	16.4	17.2	19.5	29.2	19.0
PAT (continuing ops)	(125,666)	26,399	15,489	9,709	9,712	29,774	39,486	21,906	24,358	46,263
Loss from discontinued ops	N/A	(9,024)	(141,155)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Profit after tax	(125,666)	17,375	(125,666)	9,709	9,712	29,774	39,486	21,906	24,358	46,263
Headline earnings	17,914	17,914	17,914	9,709	9,712	14,586	24,298	21,742	24,358	46,100
EPS (c)	(6.94)	0.96	(6.94)	0.50	0.50	1.54	2.05	1.14	1.26	2.40
HEPS* (c)	0.98	0.98	0.98	0.50	0.50	0.76	1.26	1.13	1.26	2.39
Normalised HEPS (c)	2.16	1.31	1.31	0.60	0.61	1.03	1.64	1.18	1.80	2.98
EPS from continuing ops (c)		1.45		0.50	0.50	1.54	2.05	1.14	1.26	2.40

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.

These updated estimates compare with the estimates and indications of profitability (respectively) set out in our last two reports on Pan African (entitled H120 confirms FY20 forecasts, published on 2 March 2020 and Roundabouts and Swings, published on 12 May 2020), as follows:

Exhibit 7: COVID-19 potential effects on PAF FY20 profitability

	Edison 2 March FY20 forecasts*	Edison 12 May FY20 forecasts**	Current FY20e forecasts
Profit after tax (US$000s)	55,022	47,254	46,263
EPS (US cents per share)	2.85	2.45	2.40
HEPS (c)	2.84	2.44	2.39
Normalised HEPS (c)	3.02	3.15	2.98
DPS (c)	0.86	0.72	1.52

Source: Edison Investment Research. Note: HEPS = headline earnings per share (company adjusted basis). *See our note, H120 confirms FY20 forecasts, published on 2 March 2020. **See our note, Roundabouts and swings, published on 12 May 2020.

In addition, readers should note that, as a group, Pan African sold 2,339oz less gold than it produced in H120. Should this be sold in H220, it would add an estimated c US$3.9m to revenue.

In the meantime, our normalised headline earnings per share (HEPS) forecast of 2.98c/share compares with a consensus EPS forecast of 2.72p/share, within a range 2.39–3.04p/share (source: Refinitiv, 27 July 2020). Our forecast for FY21 has similarly increased – largely as a consequence of a higher gold price (see 'Long-term gold price', below) and despite being now based on lower production of 190.0koz, comprising 68.3koz from Barberton underground, 35.7koz from the Evander 8 Shaft Pillar project, 20.0koz from the BTRP and 66.0koz from Elikhulu. In this case, our normalised HEPS forecast of 6.47 US cents (cf 5.32c previously) compares with a consensus of 5.05p (cf 3.3c previously), within a range 4.78–5.32p (source: Refinitiv, 27 July 2020).

Long-term gold price

In our last note on the gold price (see A golden future, published on 11 June 2020), we argued that the recent, sharp increases in the total US monetary base might be expected to support a (nominal) gold price of US$1,892/oz and potentially as high as US$3,000/oz. While there is a historically strong and statistically significant correlation of 0.909 between the gold price and the total US monetary base from 1967 to 2018, however, there is very little visibility as to how, or to what extent, the total US monetary base may be expected to evolve in the current environment. Currently, we know that it is expanding at a rate of approximately US$110bn per month, which equates to an expected increase in the gold price (using the historical correlation) of approximately US$500/oz pa. Anecdotally, the total US monetary base may probably be expected to continue to increase for a time until the COVID-19 crisis has been managed and then to flatten off for a discrete period until a period of tapering is attempted by the Federal Reserve (in a similar fashion to the aftermath of the global financial crisis). However, neither the extent of any increases nor the extent of any subsequent tapering nor the timing of either is easy to judge. In consequence, our strategy now is to maintain a flat, nominal gold price of US$1,892/oz into the future from CY21. Note that this may be contrasted with our previous approach to gold price forecasts (see Portents of economic weakness: Gold – doves in the ascendant, published on 14 August 2019), the results of which were as set out in the table below:

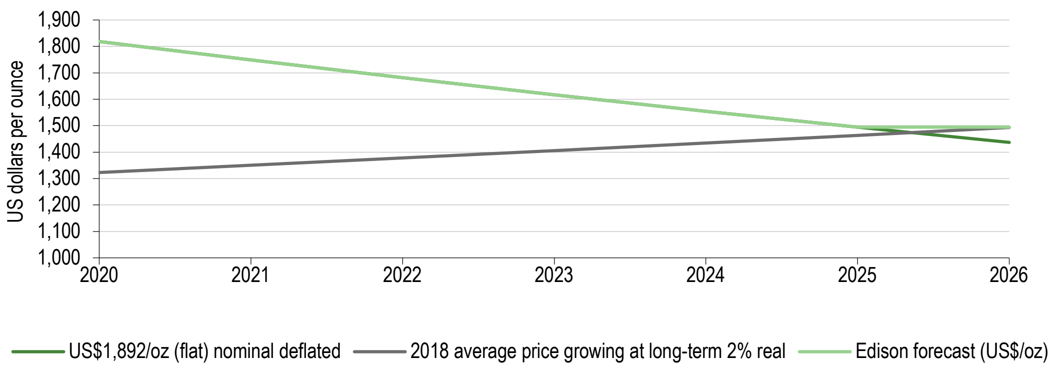
Exhibit 8: Previous Edison gold price forecasts* (US$/oz)

US$/oz	2021e	2022e	2023e
Nominal gold price forecast (US$/oz)	1,509	1,560	1,421
Real gold price forecast (US$/oz)	1,395	1,387	1,350

Source: Edison Investment Research. Note: *See Portents of economic weakness: Gold – doves in the ascendant.

In the absence of more general deflation, a flat, nominal gold price of US$1,892/oz is, self-evidently, a declining gold price in real terms, which is an unlikely long-term scenario, given that the gold price has historically increased by 2.0% per annum in real terms from 1914 to 2018 (see Portents of economic weakness, Gold: Doves in the ascendant, published in August 2019). During the period 2013–18, the gold price was relatively flat, averaging US$1,270/oz. Its average price in 2018 was also US$1,271/oz and this therefore might be considered an appropriate floor price from which to grow the gold price in real terms. Both of these scenarios may be plotted into the future as follows:

Exhibit 9: Edison updated real gold price pricing scenarios and forecast (US$/oz)



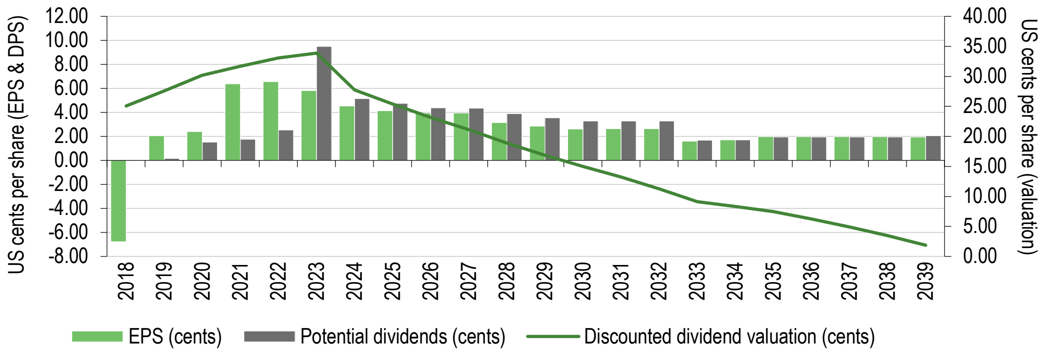
Source: Edison Investment Research. Note: Calendar years.

As may be seen from the chart above, the two lines cross between 2025 and 2026 at a level fractionally below US$1,500/oz. All our gold company valuations are conducted in real terms. Consequently, and in the absence of much immediate visibility as to the evolution of the total US monetary base, our new gold price scenario for valuation purposes is for the gold price to remain at US$1,892/oz in flat nominal terms (ie declining in real terms) until the price (in real terms) crosses with the increased US$1,271/oz 2018 price. At that point we assume that the price will flatten out (in real terms) at US$1,494/oz

Updated valuation

In the light of the changes discussed above – and, in particular, our long-term gold forecasts – our absolute value of PAF (based on its existing four producing assets only plus its forecast FY20 dividend) has risen to 34.18c/share (cf 22.43c/share previously), 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):

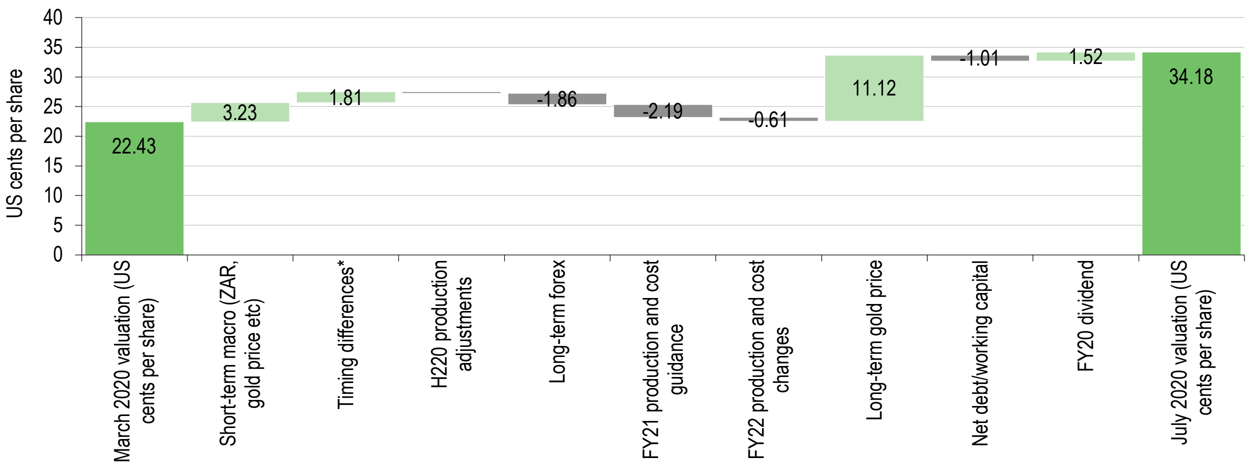
Exhibit 10: PAF estimated life of operations' diluted EPS and (maximum potential) DPS*



Source: Pan African Resources, Edison Investment Research. Note: *From FY23. Excludes discretionary exploration investment.

A graphic representation of the evolution of the valuation since that last published on 2 March (see our note, H120 confirms FY20 forecasts) is provided in Exhibit 11 below:

Exhibit 11: Evolution of Edison's valuation of Pan African valuation, March 2020 to July 2020 (US cents/share)



Source: Edison Investment Research. Note: *Discounting to start of FY21 cf FY20 (NB should be considered in conjunction with change owing to net debt/working capital and also FY20 dividend.

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 total valuation of Pan African is as follows:

Exhibit 12: PAF absolute valuation summary		
Project	**Current valuation (cents/share)**	**Previous valuation (cents/share)**
Existing producing assets (including Evander 8 Shaft Pillar project)	32.66	22.43
FY20 dividend	1.52	N/A
Egoli	6.41	4.67
Fairview Sub-Vertical Shaft project	0.91	0.63
Royal Sheba (resource-based valuation)	0.59	0.40
MC Mining shares	0.05	0.15
Sub-total	**42.14**	**28.28**
EGM underground resource	0.22-5.24	0.22–5.24
Total	**42.36-47.38**	**28.50–33.52**

Source: Edison Investment Research

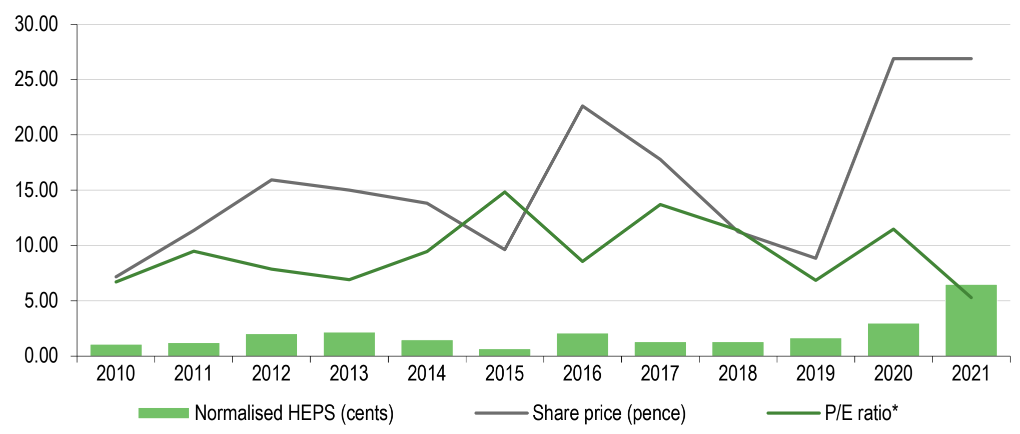
The decline in the value of PAF's shareholding of 13.1m MC Mining shares relative to our previous valuation in March reflects merely the fall in the latter's share price from ZAR5.49/share to ZAR1.31/share currently (adjusted into US dollars at the appropriate forex rate).

Historical relative and current peer group valuation

Historical relative valuation

Exhibit 13, below, depicts PAF's average share price in each of its financial years from FY10 to FY19, and compares this with normalised HEPS in the same year. For FY20 to FY21, the current share price (of 26.90p) is compared with our forecast normalised HEPS for FY20 to FY21. As is apparent from the graph, PAF's price to normalised HEPS ratio of 11.5x for FY20 (based on our forecasts – see Exhibit 20, below) is well within its recent historical range of 6.9–14.8x for the period from FY10–19. However, assuming it meets Edison's (and, albeit to a lesser extent, consensus – see Exhibit 15) earnings expectations, this measure of value is set to fall to a record low of just 5.3x for FY21 (assuming no response in its share price – see below):

Exhibit 13: PAF historical price to normalised HEPS ratio, FY10–FY21e**



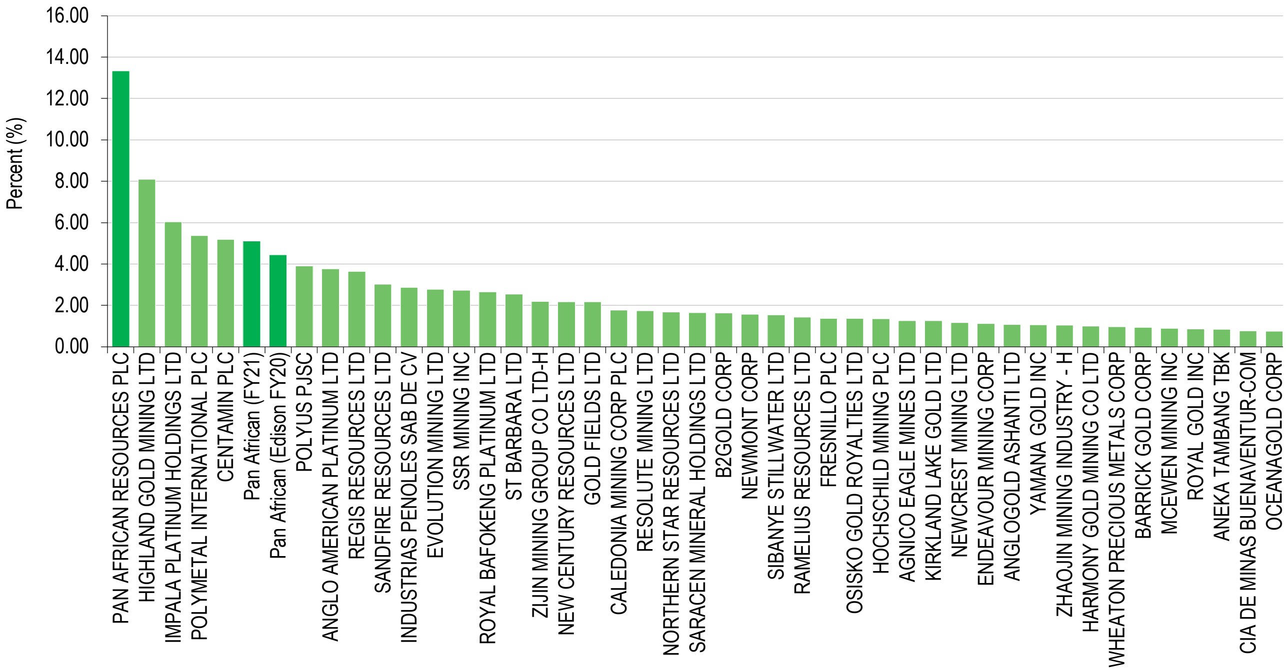
Source: Edison Investment Research. Note: *Completed historical years calculated with respect to average share price within the year shown and normalised HEPS; zero normalisation assumed before 2016. **HEPS shown in pence prior to 2018 and US cents thereafter.

Stated alternatively, if PAF's average contemporary price to normalised EPS ratio of 9.6x in the period FY10–19 is deemed 'correct' then, given our normalised earnings forecasts, its share price might have been expected to be 23.0p in FY20 and 48.7p in FY20.

Dividend

PAF has reiterated its dividend policy of having a target dividend payout 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 was a priority for the future. This was achieved in FY19 when the board recommended a final dividend of ZAR50m, or c US$3.4m, which equated to ZAR0.022375 or c 0.11725p or 0.15179 US cents per share and which it described as a 'signal' of its intent to resume more meaningful distributions to shareholders in the future. As pre-financing cash flows increase, however, at the same time as capex reduces, we believe that there will be ample scope to increase the dividend in future years, notwithstanding the group's debt repayment schedule. In the first instance, we estimate that this could include a dividend of as much as 1.52c/share (cf 0.72c/share previously) in FY20. If this proves to be correct, then Pan African will once again have a dividend yield well inside the top 10 of the 56 precious metals companies paying dividends to shareholders over the course of the next 12 months (based on either Edison or consensus market forecasts).

Exhibit 14: Global precious metal mining companies ranked by forecast dividend yield, PAF highlighted (%)



Source: Refinitiv for peers and PAF (consensus), Edison Investment Research for PAF FY20. Note: Consensus data for peers priced 20 July 2020.

Relative peer group valuation

In the meantime, over the next two years PAF remains cheaper than its South Africa- and London-listed gold mining peers on at least 76% of comparable common valuation measures (23 out of 30 individual measures in the table below) regardless of whether Edison or consensus forecasts are used:

Exhibit 15: 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	8.3	6.7	17.0	12.7	0.7	1.0
Gold Fields	8.0	6.0	24.6	12.1	1.3	2.2
Sibanye	4.1	2.8	8.1	4.5	0.2	1.9
Harmony	13.4	4.0	62.7	7.2	0.2	1.6
Centamin	5.7	5.4	16.2	16.4	4.7	4.8
Average (excluding PAF)	**7.9**	**5.0**	**25.7**	**10.6**	**1.4**	**2.3**
PAF (Edison)	7.4	4.8	11.5	5.3	4.5	5.1
PAF (consensus)	6.4	4.1	10.0	5.4	3.2	14.1

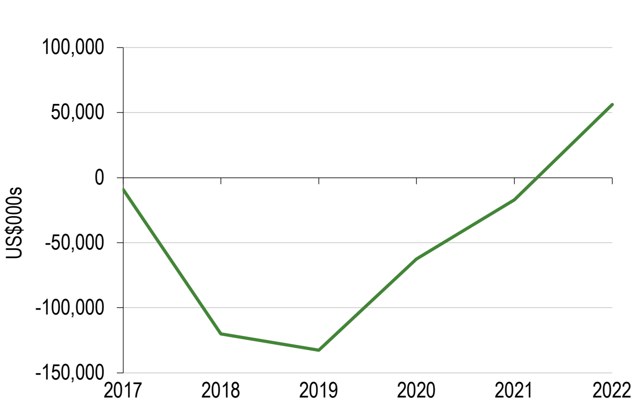
Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 27 July 2020.

Financials

Including its liabilities to non-financial institutions, PAF had net debt of US$130.7m on its balance sheet as at 31 December 2019, compared to US$132.5m as at 30 June 2019 and US$133.2m/£102.7m as at 31 December 2018 (restated). While the decline in net debt in H120 may have seemed modest, it was adversely affected by two one-off movements in working capital, relating to payables and inventories, which had an aggregate (negative) effect on cash flows in the sum of US$8.7m. Within this context, the reported decline in net debt to US$62.5m as at end-June 2020 represents a decline of US$68.2m in the space of six months. In this case, we expect that a portion of the decline could be attributed to management bearing down on working capital during the period in question and reversing the negative variances observed in H120. Nevertheless, we estimate that it reduces the company's financial gearing (net debt/equity) and leverage (net debt/(net debt+equity)) ratios from 64.8% and 39.3% as at end December 2019 to just 31.2% and 23.8% as at end June 2020, respectively.

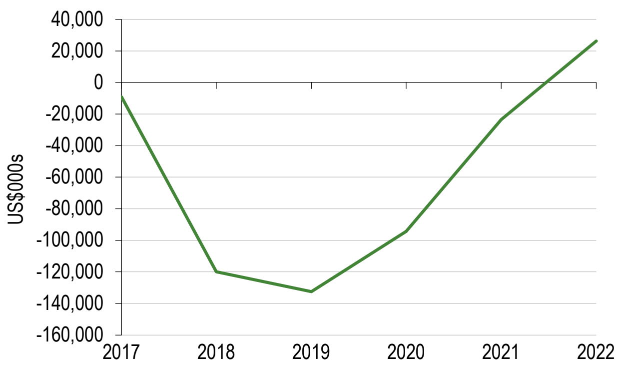
As of the current time, the most intense phase of capex relating to Elikhulu has now been completed and we expect group capex to have more than halved from its figure of ZAR802.0m in FY19 (note that capex has already more than halved from ZAR585.9m in H119 to ZAR211.5m in H120), notwithstanding the development of the Evander 8 Shaft Pillar project. As a result, henceforward, we expect Pan African to remain strongly cash flow positive, such that it will be net debt free early in FY22, even allowing for dividend distributions at the levels predicted (above):

Exhibit 16: PAF current estimated funding requirement, FY17 to FY22e (US$000)



Source: Edison Investment Research, Pan African Resources

Exhibit 17: PAF previous estimated funding requirement, FY17 to FY22e (US$000)



Source: Edison Investment Research, Pan African Resources

Debt is principally financed via a ZAR0.7bn (US$42.5m at current rates) term loan facility plus a similar-sized revolving credit facility and a ZAR121.5m (US$7.4m) general banking facility. Principal on the Elikhulu facility is payable in equal instalments until maturity in June 2024, while the revolving credit facility (RCF) has a maturity beyond mid-2024. The group's RCF debt covenants and their actual recorded levels within recent history are as follows:

Exhibit 18: PAF group debt covenants

Measurement	Constraint	H120	FY19 (actual)	H119 (actual)	FY18* (actual)	H118 (actual)	FY17 (restated)
Net debt:equity	Must be less than 1:1	0.6	0.71	0.85	0.78	0.19	0.02
Net debt:EBITDA	Must be less than 2.5:1 falling to 1.5:1 by Dec '22	1.6	2.2	3.24	3.73	2.25	0.08
Interest cover ratio	Must be greater than 4 times rising to 5.1 times by Dec '22	5.8	4.1	3.64	4.61	4.62	19.32
Debt service cover ratio	Must be greater than 1.3:1	3.0	1.4	2.85	3.84	1.85	9.11

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

Potential future organic growth

Pan African has five potential organic growth projects at various stages of development, namely the Fairview sub-vertical shaft project (adding 7–10koz to production pa), the Royal Sheba project (c 30koz pa), Egoli (optimised 34% IRR and ZAR1.04bn pre-tax NPV), the 8 Shaft Pillar project (US$25.8m pre-tax NPV) and the extraction of the Prince Consort shaft pillar (3,900–7,800oz pa). Two – the 8 Shaft Pillar project and the Fairview sub-vertical shaft – are already in development.

Royal Sheba

At the same time that it approved the Evander 8 Shaft Pillar project, PAF concluded that it would not pursue mining the near-surface Royal Sheba resource on a standalone basis, but that it will instead upgrade the existing Barberton Mines processing plant infrastructure to take Royal Sheba ore. Development of the orebody will be in two phases:

- Phase 1: via an existing adit to exploit the upper levels of the orebody using long-hole open stoping at a capital cost of US$3–4m.
- Phase 2: developing the lower levels of the orebody from the Sheba side at 23 Level at a capital cost of c ZAR30m (US$1.8m at current forex rates).

At the same time, the Dibanisa project – scheduled to be completed in FY21 – will integrate Sheba and Fairview infrastructure, such that Fairview will be able to accommodate Royal Sheba ore. One of the immediate advantages of this will be that additional available shaft time will assist with the development and mining of Royal Sheba. Once in production, the Sheba plant will be available to process both surface material and Royal Sheba uppers (ie Phase 1). Tailings from the Royal Sheba operation will then be available for processing via BTRP infrastructure in addition to the latter's traditional sources. Among other things, this method of development will help to expedite the environmental licensing process, shorten the timeline to production, enhance returns and negate the need for external capital funding. Development of Royal Sheba will extend operations at Sheba by 10 years to 19 years in total. In addition, optimised usage of infrastructure is also anticipated to reduce all-in sustaining costs to c US$1,000/oz (management estimate). Design has been completed for the early extraction of the western block in Phase 1 (above the historical workings). In the meantime, a preliminary economic assessment for Phase 2 is underway. Management has indicated that it would require an internal rate of return in excess of 20% in order to proceed with the project. In this event, it anticipates that it would take approximately one year to open and develop the orebody, such that mining of the uppers (Phase 1) would commence in c March 2021and the mining of the lowers (Phase 2) in c September 2021.

Egoli

In contrast to the other five projects, Egoli (formerly the 2010 Pay Channel project) – with a peak funding requirement of ZAR862m (US$51.2m at prevailing forex rates) – will require external funding. Following dewatering, standard footwall development, further deepening of the decline and on-reef development and associated engineering is required before mining can commence.

An optimised mining feasibility study on the project was completed at the end of 2019 and this has now been reviewed by consultants DRA and its own independent feasibility study completed. Initially, 560m of development will be required to access the orebody and PAF has mandated DRA to complete detailed scheduling and planning as the next phase of the project's development. In the light of the requirement for external funding, Pan African is in the process of studying a range of financing options, including equity partners, gold streaming and ring-fencing the operation in a separate vehicle. Once in production, however, the project involves extracting c 1Moz of gold at a rate of c 60–80koz pa at an AISC of less than US$1,000/oz over approximately nine years (note that this mine plan excludes an additional 1.95Moz of resources in the inferred category). While superficially comparable to former underground operations at Evander 8 Shaft, however, there are a number of important differences, which are summarised below:

Exhibit 19: Egoli vs former 8 Shaft operating parameters

Parameter	Egoli	Former 8 Shaft operations
Depth	1,900m	~2,500
Access	Directly from 7 Shaft (twin shaft) with one decline	Vertical access via 8 Shaft, mid-shaft hoisting, cross tramming to 7 Shaft via series of declines
Tramming/travelling distance	3km from shaft	13km
Transfer points	6	20
Waste and reef	Separate waste and reef handling	Waste and reef combined – thereby limiting ability to develop and diluting grade
Head grade (g/t)	6.64	5.7
Mine call factor	85%	73.5%
Employees	~800 employees	1,800 employees plus 500 contractors

Source: Pan African Resources

As with the 8 Shaft Pillar project, the lower number of transport points and systems is significant given that a high percentage of gold in the Evander ore is in the form of fine gold, which is otherwise estimated to be lost at a rate of 1% per kilometre of tramming distance.

Prince Consort shaft pillar extraction

Despite historically being the highest grading operation at Barberton, the Consort mine has recently also become one of its highest cost operations. In order to address this, management has determined on an immediate initiative to mine the Prince Consort (PC) Shaft pillar, which boasts a mineral resource of 48.82kt at a grade of 25.54g/t (0.82oz per tonne, or opt), containing 40koz gold. At the same time, it will explore the 36 exploration targets that have been identified at New Consort for potential future exploitation.

The orebody was intersected in early May (only one month later than planned, despite coronavirus) and development into the first target block was completed in June, with assayed grades as high as 300g/t (approximately 10oz/t) being reported, including visible gold. As such, the operation is poised to produce at a rate of 3,900–7,800oz pa at a targeted AISC of c US$1,200/oz over a period of approximately three years. In addition to underground ore, additional material from surface stockpiles at Consort will maximise and extend plant capacity.

Elikhulu solar power plant

While Pan African is less exposed to load-shedding than its deep level South African peers by virtue of 44% of its gold being derived from tailings and other surface sources and its having spare plant capacity in general, recent outages have nevertheless had a disruptive effect on operations at Elikhulu. In mitigation, management has completed a bankable feasibility study on a 10MW solar plant at Evander (actually 9.99MW so as to avoid the need for NERSA regulatory approval), which was reported to be positive. The solar plant will supply approximately 30% of Elikhulu's power requirements and will reduce its dependence on both grid power and electricity price inflation. An EPCM contract for the construction of the solar plant has been awarded and PAF is currently in the process of finalising the necessary legal and contractual agreements for the project, as well as raising the dedicated funding in a fashion that is non-dilutive for PAF shareholders. In due course, the project will also generate carbon credits for Pan African.

Exhibit 20: Financial summary

US$'000s	2018	2019	2020e	2021e
Year end 30 June	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS				
Revenue	145,829	218,818	274,236	325,032
Cost of sales	(107,140)	(152,980)	(168,384)	(160,504)
Gross profit	38,689	65,838	105,853	164,528
EBITDA	38,131	65,484	105,273	161,603
Operating profit (before GW and except.)	31,506	49,256	82,921	143,438
Intangible amortisation	0	0	0	0
Exceptionals	(16,521)	10,596	(11,296)	(1,592)
Other	0	0	0	0
Operating profit	14,985	59,852	71,624	141,846
Net interest	(2,222)	(12,192)	(14,511)	(5,625)
Profit before tax (norm)	29,284	37,064	68,409	137,813
Profit before tax (FRS 3)	12,763	47,660	57,113	136,221
Tax	2,826	(8,174)	(10,850)	(13,037)
Profit after tax (norm)	32,110	28,890	57,559	124,776
Profit after tax (FRS 3)	15,589	39,486	46,263	123,185
Average number of shares outstanding (m)	1,809.7	1,928.3	1,928.3	1,928.3
EPS - normalised (c)	1.31	1.64	2.98	6.47
EPS - FRS 3 (c)	0.87	2.05	2.40	6.39
Dividend per share (c)	0.00	0.15	1.52	1.75
Gross margin (%)	26.5	30.1	38.6	50.6
EBITDA margin (%)	26.1	29.9	38.4	49.7
Operating margin (before GW and except.) (%)	21.6	22.5	30.2	44.1
BALANCE SHEET				
Fixed assets	315,279	361,529	367,470	371,414
Intangible assets	56,899	49,372	51,561	53,768
Tangible assets	254,247	305,355	308,998	310,734
Investments	4,134	6,802	6,911	6,911
Current assets	29,009	31,601	67,570	132,785
Stocks	4,310	6,323	2,223	10,842
Debtors	22,577	18,048	12,074	23,170
Cash	922	5,341	51,384	96,884
Current liabilities	(44,395)	(63,855)	(87,770)	(66,827)
Creditors	(37,577)	(37,316)	(85,231)	(64,289)
Short-term borrowings	(6,817)	(26,539)	(2,539)	(2,539)
Long-term liabilities	(152,906)	(145,693)	(146,802)	(147,472)
Long-term borrowings	(114,065)	(111,345)	(111,345)	(111,345)
Other long-term liabilities	(38,841)	(34,348)	(35,457)	(36,127)
Net assets	146,988	183,582	200,468	289,899
CASH FLOW				
Operating cash flow	5,345	59,822	125,880	114,977
Net Interest	(6,076)	(14,685)	(14,511)	(5,625)
Tax	(1,634)	(4,497)	(9,742)	(12,366)
Capex	(127,279)	(52,261)	(28,185)	(22,109)
Acquisitions/disposals	6,319	466	0	0
Financing	11,944	(0)	0	0
Dividends	(11,030)	(2,933)	(3,400)	(29,377)
Net cash flow	(122,411)	(14,088)	70,042	45,500
Opening net debt/(cash)	9,083	119,960	132,542	62,500
Exchange rate movements	(619)	537	0	0
Other	12,152	969	0	0
Closing net debt/(cash)	119,960	132,542	62,500	17,000

Source: Company sources, Edison Investment Research.

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