Pan African Resources

FY21 production results

Exceeding expectations (as usual)

Metals & mining

Pan African (PAF) announced its operational results for the year ended 30 June 2021 on 13 July, with output for the full year 6,609oz (3.4%) higher than PAF's own guidance of 195,000oz from as recently as May 2021 and 7,383oz (3.8%) above Edison's forecast. All of the substantive outperformance could be attributed to operations at Evander underground, which more than made up for an early shortfall in production in H121. Otherwise, group net senior debt was reported to be very close to Edison's prior forecast, at US$33.8m, and production guidance for FY22 was confirmed at 195koz.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/19	218.8	37.1	1.64	0.15	14.1	0.6
06/20	274.1	80.8	3.78	0.84	6.1	3.6
06/21e	369.0	122.4	4.24	1.01	5.4	4.4
06/22e	340.9	144.0	5.18	1.04	4.4	4.5

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

Output at Evander underground surges

While production from Evander underground surged in H221, production at Barberton underground benefited from increased mining footprints on four cycling production platforms. Simultaneously however, production was restrained at Elikhulu as a result of unexpected concentrations of carbonaceous material in the lower benches of the Kinross dam that we estimate probably reduced gold recoveries from c 47.8% to c 42.6% (nevertheless in line with H220 and H121).

Two new growth projects

Recent initiatives have resulted in the addition of two new assets to PAF's portfolio of growth projects in the form of Mintails/Mogale and the 8 Shaft decline 24 Level project. Early indications suggest that these could be worth in the order of 5.3c (3.8p) and 0.5c (0.3p) in value to PAF's shares, respectively, as a result of which it has reprioritised its capex commitments to implement a phased approach to the development of Egoli in such a way as to minimise upfront capex and thereby materially reduce the requirement to raise debt to fund the project.

Valuation: Eyeing 43.84c (31.72p) per share plus

On a like-for-like basis, our forecasts and core valuation of PAF have risen a modest 1.5% to 38.76c/share based on the production update. However, the valuation stands to rise by an additional 13.1%, to 43.84c/share, in the event of the successful development of Mintails/Mogale and the 8 Shaft decline 24 Level project (see Exhibit 6). To this must then be added the value of c 19.2m underground Witwatersrand ounces, which we estimate could lie anywhere in the range of 0.22–5.24c to take the total to 44.06–49.08c/share. Alternatively, if PAF's historical average price to normalised EPS ratio of 9.1x in the period FY10–20 is applied to our FY21 and FY22 forecasts, it implies a share price of 27.9p in FY21 followed by 34.0p in FY22.

21 July 2021

Price	**16.66p**
Market cap	**£372m**

ZAR19.7861/£, ZAR14.3087/US$, US$1.3821/£

Net debt (US$m) at end June 2021*	33.8

*Excludes c US$5.0m in IFRS 16 lease liabilities

Shares in issue	2,234.7m

*Effective 1,928.3m post-consolidation

Free float	86%
Code	PAF
Primary exchanges	AIM/JSE
Secondary exchange	OTCQX Best Market

Share price performance

%	1m	3m	12m
Abs	(6.9)	(8.1)	(30.2)
Rel (local)	(5.3)	(8.4)	(38.6)
52-week high/low		27.1p	15.4p

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

Egoli investment decision	Mid-CY21
FY21 results	September 2021
FY21 dividend payment date	December 2021
Mintails/Mogale due diligence	Until January 2022

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Edison profile page

Pan African Resources is a research client of Edison Investment Research Limited

FY21 production results

Pan African announced its operational results for the year ended 30 June 2021 on 13 July. Production in H121 was already known; nevertheless, production for the full year was 6,609oz (3.4%) higher than PAF's own guidance of 195,000oz from as recently as May 2021, and 7,383oz (3.8%) above Edison's forecast for the year. As a result, the group's production profile grew, rather than declined, in H221 compared to H121. In percentage terms, the increase was enhanced when analysed on a half year basis, as shown in the exhibit below.

Exhibit 1: PAF production, FY18–21 (oz)

Operation	H118	H218	H119	H219	H120	H220	H121	H221e (previous)	H221a	Change* (%)	Variance** (%)	FY21a	FY21e (previous)
Barberton UG	32,159	40,966	38,550	36,806	36,737	31,392	42,350	41,551	42,469	+0.3	+2.2	84,819	83,901
BTRP	8,452	9,052	12,006	12,001	10,619	9,516	10,004	9,393	8,231	-17.7	-12.4	18,235	19,397
Barberton	**40,611**	**50,018**	**50,556**	**48,807**	**47,356**	**40,908**	**52,354**	**50,944**	**50,700**	**-3.2**	**-0.5**	**103,054**	**103,298**
Evander UG	32,734	15,831	8,821	8,058	11,553	9,117	12,607	17,314	23,352	+85.2	+34.9	35,959	29,921
ETRP	11,937	9,313	6,345	3,654	4,731	6,176	6,560	0	4,561	N/A	N/A	11,121	6,560
Evander	**44,671**	**25,144**	**15,166**	**11,712**	**16,284**	**15,293**	**19,169**	**17,314**	**27,913**	**+45.6**	**+61.2**	**47,080**	**36,483**
Elikhulu	0	0	15,292	30,909	29,301	30,315	26,863	27,582	24,610	-8.4	-10.8	51,473	54,445
Total	**85,282**	**75,139**	**81,014**	**91,428**	**92,941**	**86,516**	**98,386**	**95,840**	**103,223**	**+4.9**	**+7.7**	**201,608**	**194,226**

Source: Edison Investment Research, Pan African Resources. Note: *H221 cf H121; **H221a cf H221e. Totals may not add up owing to rounding. UG = underground.

While production from the Barberton complex was broadly in line with our expectations and that from Elikhulu was slightly below, all of the outperformance could be attributed to operations at Evander underground. Output at Evander underground was restrained by a ventilation shaft lining fracture in H121 as well as technical difficulties relating to the pseudo packs used for ground support (now overcome) and lower than usual metallurgical recoveries (although this was, to some extent, counterbalanced by head grade, which, at an estimated 8.51g/t, was 11.0% above our prior forecast of 7.67g/t). In the event, however, Evander's performance in H221 not only returned output levels to those expected for the six-month period, but also more than made up for the shortfall in the first half as well. Over the same period, production at Barberton underground benefited from increased mining footprints on the 256, 257, 258 and 358 platforms, thereby engendering greater mining flexibility. Throughput at Elikhulu was restricted on account of remedial work on the its tailing storage facility's lower compartment. This was largely anticipated in our note at the time of the company's interim results (see Record interim profitability, published on 3 March 2021). In addition, however, unexpected concentrations of carbonaceous material in the lower benches of the Kinross dam negatively affected gold recoveries, which we estimate must have been in the order of 42.6% (in line with H220 and H121 but below our prior expectation of 47.8% for H221).

Updated H221e and FY21e forecasts

We have updated our forecasts for H221 and FY21 in the light of the production results reported by Pan African as well as a slightly lower gold price during H221 (US$1,805/oz cf our previous forecast of US$1,828/oz) and a slightly stronger rand against the US dollar, in particular (ZAR14.54/US$ cf our previous forecast of ZAR14.60/US$). While our estimate of full-year revenue has increased by US$12.1m to reflect higher than expected production during the year and half year, this increase was counterbalanced by an only slightly smaller increase in cash costs as higher-margin production from Elikhulu was supplanted by lower-margin production from Evander to leave our earnings expectations, to all intents and purposes, unchanged – albeit at levels for the half year that are more akin to those typically earned within a full financial year historically.

Exhibit 2: PAF P&L statement by half-year (H119–H221e)

US$000s (unless otherwise indicated)	H119 (restated)	H219	FY19	H120	H220	FY20	H121	H221e (previous)	H221e (current)	FY21e	FY21e (previous)
Revenue	97,531	121,287	218,818	132,849	141,258	274,107	183,751	173,216	185,269	369,020	356,967
Cost of production	(70,847)	(82,133)	(152,980)	(86,501)	(71,956)	(158,457)	(98,245)	(97,564)	(109,312)	(207,557)	(195,808)
Depreciation	(6,840)	(9,388)	(16,228)	(10,526)	(10,977)	(21,503)	(12,741)	(16,012)	(16,020)	(28,761)	(28,753)
Mining profit	19,844	29,767	49,611	35,821	58,325	94,146	72,766	59,640	59,937	132,703	132,406
Other income/(expenses)	(2,077)	(5,181)	(7,258)	(962)	(27,720)	(28,682)	(6,704)	0	0	(6,704)	(6,704)
Loss in associate etc	0	0	0	0	0	0	0	0	0	0	0
Loss on disposals	0	0	0	0	0	0	0	0	0	0	0
Impairments	0	17,854	17,854	109	(20)	89	0	0	0	0	0
Royalty costs	(474)	120	(354)	(208)	(266)	(474)	(2,404)	(1,678)	(1,778)	(4,183)	(4,083)
Net income before finance	17,293	42,559	59,852	34,761	30,319	65,079	63,657	57,962	58,159	121,816	121,619
Finances income	443	407	850	207	258	465	300				
Finance costs	(5,699)	(7,343)	(13,042)	(7,760)	(5,587)	(13,346)	(3,946)				
Net finance income	(5,256)	(6,936)	(12,192)	(7,553)	(5,329)	(12,881)	(3,646)	(2,507)	(2,507)	(6,153)	(6,153)
Profit before taxation	12,037	35,623	47,660	27,208	24,990	52,198	60,011	55,455	55,651	115,662	115,466
Taxation	(2,325)	(5,850)	(8,174)	(5,303)	(2,602)	(7,905)	(19,239)	(21,224)	(21,275)	(40,513)	(40,462)
Effective tax rate (%)	19.3	16.4	17.2	19.5	10.4	15.1	32.1	38.3	38.2	35.0	35.0
PAT (continuing ops)	9,712	29,774	39,486	21,906	22,388	44,293	40,773	34,231	34,376	75,149	75,004
Loss from discontinued ops	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Profit after tax	9,712	29,774	39,486	21,906	22,388	44,293	40,773	34,231	34,376	75,149	75,004
Headline earnings	9,712	14,586	24,298	21,742	22,416	44,158	40,772	34,231	34,376	75,148	75,003
Est. normalised headline earnings	11,789	19,766	31,556	22,704	50,136	72,840	47,476	34,231	34,376	81,852	81,708
EPS (c)	0.50	1.54	2.05	1.14	1.16	2.30	2.11	1.78	1.78	3.90	3.89
HEPS* (c)	0.50	0.76	1.26	1.13	1.16	2.29	2.11	1.78	1.78	3.90	3.89
Normalised HEPS (c)	0.61	1.03	1.64	1.18	2.60	3.78	2.46	1.78	1.78	4.24	4.24
EPS from continuing ops (c)	0.50	1.54	2.05	1.14	1.16	2.30	2.11	1.78	1.78	3.90	3.89

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

In the context of the above forecasts, readers should note that we estimate that US$23.1m (or 57.0%) of our estimated full-year tax charge for FY21 will have been in the form of deferred taxes and that cash taxes will have accounted for only US$17.4m (or 43.0%) of the total tax charge of US$40.5m.

Our updated normalised FY21 headline earnings per share (HEPS) forecast of 4.24c/share compares with a range of analysts' expectations from 3.01–3.72p/share, or 4.16–5.14c/share (source: Refinitiv, 21 July 2021).

Updated guidance

In addition to its production results for FY21, Pan African also confirmed guidance for production from the group for FY22 of 195,000oz, including 55,000oz from Elikhulu. Edison has interpreted this guidance as implying the following levels of production from each of the group's mines during the course of the year, which we have compared to FY21 and our prior expectations for FY22, as follows:

Exhibit 3: PAF production, FY18–22e (oz)

Operation	FY18	FY19	FY20	FY21	FY22 (previous)	FY22 (current)	Change* (oz)	Change* (%)	Variance** (oz)	Variance** (%)
Barberton UG	73,125	75,356	68,129	84,819	81,487	86,247	+1,428	+1.7	+4,760	+5.8
BTRP	17,504	24,007	20,135	18,235	19,397	18,235	0	0.0	-1,162	-6.0
Barberton	**90,629**	**99,363**	**88,264**	**103,054**	**100,884**	**104,482**	**+1,428**	**+1.4**	**+3,598**	**+3.6**
Evander UG	48,565	16,879	20,670	35,959	26,400	26,400	-9,559	-26.6	0	0.0
ETRP	21,250	9,999	10,907	11,121	0	9,118	-2,003	-18.0	+9,118	N/A
Evander	**69,815**	**26,878**	**31,577**	**47,080**	**26,400**	**35,518**	**-11,562**	**-24.6**	**+9,118**	**+34.5**
Elikhulu	0	46,201	59,616	51,473	65,116	55,000	+3,527	+6.9	-10,116	-15.5
Total	**160,444**	**172,442**	**179,457**	**201,608**	**192,400**	**195,000**	**-6,607**	**-3.3**	**+2,600**	**+1.4**

Source: Edison Investment Research, Pan African Resources. Note: *FY22e cf FY21; **FY22e (current) cf FY22e (previous). Numbers may not add up owing to rounding. UG = underground.

We have now adjusted our financial model to reflect PAF's guidance. While this has involved an increase in forecast production in FY22, guidance for FY22 appears somewhat conservative in the context of production in FY21. Moreover, there is probably a degree of uncertainty regarding likely output from Evander in FY22. For the moment, we have retained production from Evander underground at 26,400oz reflecting solely anticipated output from the 8 Shaft Pillar project, in this case, supplemented by production of 9,118oz from tolling from surface sources through the ETRP plant to result in total output from Evander of 35,518oz. However, it is possible that production from Evander underground will be augmented by the execution of the 8 Shaft decline project (see below) to maintain production at approximately 34,000oz per annum for the Evander 8 Shaft complex as a whole. In this case, any additional production from tolling from surface sources (historically of the order of 10,000oz pa) through the ETRP is likely to result in overall output from Evander in excess of 35,518oz. The effect of Edison's adjustments to its model has resulted in a modest, 4.6% decline in normalised earnings in FY22 to US$99.9m (cf US$104.6m previously) and a similar decline in normalised HEPS from 5.43c/share to 5.18c/share, albeit with the production caveat noted above and the observation that this will still represent an increase relative to FY21 and therefore record earnings and profitability for the group. This compares with a range of analysts' expectations of 3.60–4.93p/share, or 4.98–6.81c/share (source: Refinitiv, 21 July 2021).

Growth projects

Pan African has recently added two new projects to its existing portfolio of growth projects (already including Royal Sheba, the Fairview sub-vertical shaft, Rolspruit, Poplar, Evander South etc) in the form of the Mintails/Mogale project and the 8 Shaft decline 24 Level project.

Mintails/Mogale

One of the assets with the most immediate optionality in the company's portfolio is Mintails/Mogale, which could yet prove very similar in nature to Elikhulu, and into which PAF is currently conducting due diligence with a view to acquiring.

On 6 November 2020, PAF announced that it had entered into a conditional agreement with the liquidator of Mintails' assets for the purchase of the total share capital and associated loans of Mogale Gold Pty Ltd and Mintails SA Soweto Cluster Pty Ltd. Due diligence has been extended until January 2022. In the meantime, PAF has successfully concluded both a fatal flaw analysis and a high-level financial evaluation of the project, which would be similar in nature to Pan African's flagship Elikhulu project. Key outcomes of the financial evaluation are as follows:

- An optimal throughput feed of c 0.8Mtpm (cf Elikhulu's 1.2Mtpm).
- Metallurgical recoveries of c 53% (cf Elikhulu's 48%).
- An all-in sustaining cost (AISC) of c US$800/oz.
- An $NPV_{10.71}$ of ZAR1,469m, or US$101.3m at a gold price of US$1,770/oz and a forex rate of ZAR14.50/US$, or ZAR0.762/share, US$0.053/share or £0.038/share.
- Initial project capital of ZAR1,000m (US$68.9m at ZAR14.50/US$) and life of mine capital of ZAR1,700m (US$117.2m).
- Average annual production of 44,400oz pa.
- A 12-year life of mine.
- A real post-tax internal rate of return of 42.8%.

The concept study did, however, identify areas that will require further evaluation, including:

- Tailings storage facility deposition capacity constraints.
- The availability of water sources in the area to support re-mining operations.
- Additional test work to confirm metallurgical recoveries.

In the meantime however, by way of comparison, investors should note that Mintails' and Mogale's aggregate resource of 2.36Moz compares favourably to Elikhulu's original resource of 1.7Moz and its initial reserve of 1.5Moz, but at a fractionally higher grade of 0.30g/t (cf Elikhulu's 0.29g/t). PAF announced the results of an independent definitive feasibility study (DFS) on Elikhulu on 5 December 2016, which demonstrated an NPV_9 of US$75.9m (or, then, 5.0c/share, or US$40.95 per resource ounce) at a gold price of US$1,180/oz and a forex rate of ZAR14.50/US$. At the time, Edison estimated Elikhulu to be worth US$69.9m (or 4.6c/share) at a 10% discount rate and to be capable of adding 1.33p to EPS in the first eight years of its operation (albeit there are now 28.0% more shares in issue). Now however, with capex having been expended (but with not all associated debt having been repaid), we estimate a current valuation for Elikhulu of c US$136.32 per initial resource ounce or US$179.08 per residual resource ounce. As such, and albeit with suitable caveats such as the Mintails/Mogale assets developing in a similar fashion to Elikhulu, PAF could acquire for US$1.31/oz an asset that should be worth US$9.88/oz as an in-situ resource (see Gold stars and black holes, published in January 2019), could be worth US$40.95/oz (pre-production) and may be worth up to US$191.94/oz (post-initial capex and debt repayment).

8 Shaft no. 2 decline 24 Level project

Pan African has continued to maintain the integrity of the underground infrastructure at Evander even after the end of high-volume, deep-level underground mining in May 2018. While limited vamping operations have continued since then, PAF has now concluded an internal technical and economic study into the merits of mining the number 2 decline on 24 Level at 8 Shaft (Phase 1 of the project) with an option to extend mining to levels 25 and 26 at a later date (Phase 2).

An integral component of the Phase 1 study was the identification of pre-May 2018 problems at Evander underground and appropriate mitigation of the major challenges encountered during the mining of the Kinross orebody. These included:

Exhibit 4: Evander underground challenges and mitigations

Risk	Mitigation
Low efficiencies owing to high temperatures as a result of inadequate refrigeration capacity	Installation of a new refrigeration plant for a capital investment of c ZAR170m (US$22.1m at ZAR14.50/US$)
Ore and waste separation	Underground waste handling and storage facilities to be installed at a capital cost of c ZAR60m (US$4.1m)
Limited face time owing to long underground travelling times and distances	Installation of a man carriage on 24 Level
Labour intensive ore handling infrastructure based on a continually rotating three-shift pattern	Reduced tonnage profile requiring only one shift to be manned in order to meet production targets

Source: Pan African Resources, Edison Investment Research.

To date, the study has yielded the following results for the project:

- An $NPV_{10.71}$ of ZAR126.1m, or US$8.7m at a gold price of US$1,770/oz and a forex rate of ZAR14.50/US$, or ZAR0.063/share, US$0.005/share or £0.003/share.
- Project capital of ZAR320m (US$22.1m at ZAR14.50/US$) to be funded internally and from existing facilities.
- A real, post-tax internal rate of return of 26.6% (based on Phase 1 cash-flows only).

While not large by the standards of some of Pan African's other recent projects, the 8 Shaft no. 2 decline 24 Level project will extend the 8 Shaft Pillar project's 2.5-year life by a minimum of another 2.5 years at approximately the same level of production of c 34,000oz per annum.

As a consequence of the positive concept study on Mintails/Mogale and the group's assessment of the opportunity provided by the 24 Level project at Evander, Pan African has now reprioritised its capital expenditure programmes as follows:

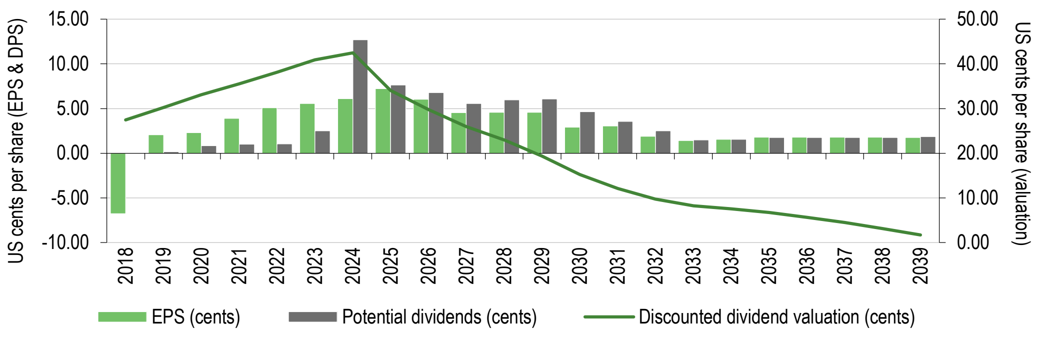
- It will now implement a phased approach to the development of the Egoli project, entailing significantly reduced upfront capital expenditure and thereby materially reducing the requirement to raise debt to fund the project.
- It will complete a pre-feasibility study (PFS) on the Mintails' assets in Q3 of CY21 and a definitive feasibility study in Q1 of CY22.
- It has commenced preparatory work for the mining of the 24 Level project.

Full details regarding Pan African's growth projects will be released in due course, in particular with respect to the phasing of the development of the Egoli project. Until such time as these details are known, Edison is maintaining its valuation of Pan African (below) based on its prior assumptions regarding its growth projects' developments. However, it is not unreasonable to assume that any refinements to the projects' timings and developments should be value adding and, in that respect, Edison's valuation (below) could be regarded as being conservative.

Updated (absolute) valuation

In the light of PAF's operational update for FY21 and fractionally revised external factors such as the gold price and forex rates, our absolute value of the company (based on its existing four producing assets plus Egoli) has increased very slightly to 36.52c/share (cf 36.42c previously), on the basis of 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: Pan African Resources, Edison Investment Research. Note: *From FY24. Excludes discretionary exploration investment.

Including its other potential growth projects and assets (ie the residual Evander underground resource and its shareholding in MC Mining), our updated total valuation of PAF is as follows:

Exhibit 6: PAF absolute valuation summary

Project	Current valuation (cents/share)	Previous valuation (cents/share)
Existing producing assets (including Egoli)	36.52	36.42
Fairview Sub-Vertical Shaft project	1.13	1.13
Royal Sheba (resource-based valuation)	0.43	0.40
Mintails/Mogale purchase consideration*	0.17	0.17
8 Shaft no. 2 decline 24 Level project	0.45	0.00
MC Mining shares	0.06	0.07
Sub-total	**38.76**	**38.19**
EGM underground resource	0.22–5.24	0.22–5.24
Sub-total	**38.98–44.00**	**38.41–43.43**
Mintails/Mogale project execution upside	5.08	N/A
Total	**44.06–49.08**	**38.41–43.43**

Source: Edison Investment Research. Note: Numbers may not add up owing to rounding.*Acquisition of Mintails/Mogale is agreed, subject to due diligence

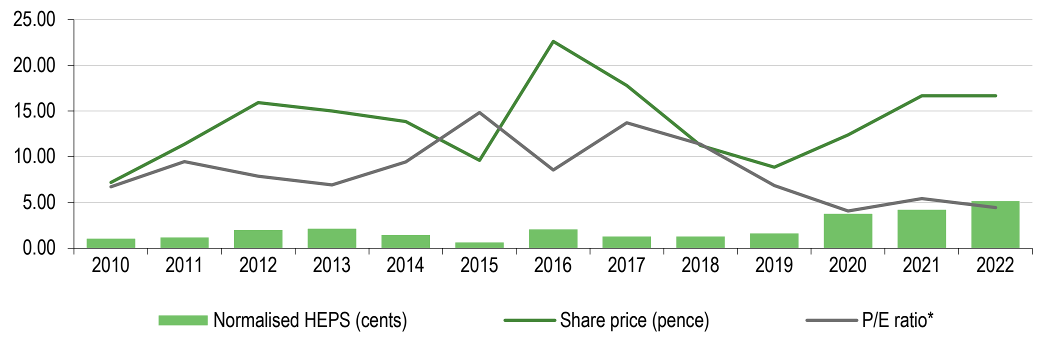
Of particular note to readers is the increase in the valuation of Pan African's interest in Mintails/Mogale on the basis of its fatal flaw analysis and high-level financial evaluation of the project (see above). Self-evidently, this valuation is contingent upon Pan African concluding its agreed acquisition of these assets and its subsequent development of them.

Historical relative and current peer group valuation

Historical relative valuation

Exhibit 7, below, depicts PAF's average share price in each of its financial years from FY10 to FY20, and compares this with normalised HEPS in the same year. For FY21 and FY22, the current share price (of 16.66p) is compared with our forecast normalised HEPS for FY21 to FY22. As is apparent from the graph, PAF's price to normalised HEPS ratio of 5.4x and 4.4x for FY21 and FY22, respectively (based on our forecasts – see Exhibit 13, below) is very close to the bottom of its recent historical range of 4.1–14.8x for the period FY10–20:

Exhibit 7: PAF historical price to normalised HEPS ratio, FY10–FY22e**



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 9.1x in the period FY10–20 is applied to our normalised earnings forecasts, then it implies a share price for PAF of c 27.9p in FY21 and 34.0p in FY22.

Relative peer group valuation

Over the next two years, PAF remains cheaper than its South Africa- and London-listed gold mining peers on 66.7% of comparable common valuation measures (20 out of 30 individual measures in the table below) if Edison forecasts are applied or 50% if consensus forecasts are applied.

Exhibit 8: 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	4.1	3.9	7.8	6.9	1.9	2.1
Gold Fields	4.1	4.2	8.8	8.6	3.5	3.4
Sibanye	2.2	2.6	3.8	4.8	7.9	6.6
Harmony	2.9	2.8	4.7	5.5	2.5	2.8
Centamin	3.8	3.5	11.7	12.3	6.3	4.7
Average (excluding PAF)	**3.4**	**3.4**	**7.3**	**7.6**	**4.4**	**3.9**
PAF (Edison)	3.0	2.8	5.4	4.4	4.4	4.5
PAF (consensus)	2.7	2.3	8.9	6.6	2.3	2.3

Source: Edison Investment Research, Refinitiv. Note: Consensus and peers priced at 14 July 2021.

Readers should note that PAF's P/E ratio and dividend yield, calculated on the basis of consensus forecasts, appear to suggest that EPS and DPS will both fall in FY21 relative to FY20, which we believe is unusually pessimistic and especially so in the context of the company's interim results (see Exhibit 2).

Otherwise, applying PAF's peers' average year 1 P/E ratio of 7.3x to Edison's forecast normalised HEPS forecast of 4.24c/share for FY21 implies a share price for the company of 22.6p at prevailing forex rates, while applying its peers' average year 2 P/E ratio of 7.6x to our forecast normalised HEPS forecast of 5.18c/share implies a share price of 28.5p.

Financials

PAF reported that group net senior debt had decreased by 45.5%, from US$62.0m at end-June 2020 to US$33.8m at end-June 2021, a decline of US$28.2m over the course of the full 12-month period, but a decline of US$26.1m in H221 alone. We estimate that this level of debt equates to a gearing ratio (net debt/equity) of 14.1% (cf 24.5% at the interim stage) and a leverage ratio (net debt/[net debt+equity]) of 12.4% (cf 19.7%). This figure is probably not complete in that it will exclude IFRS 16 lease liabilities of c US$5.0m and an (albeit negligible) instalment sale liability. However, it does nevertheless represent the vast majority of the group's net debt, as shown in the table below:

Exhibit 9: Pan African net debt, by type (US$m)

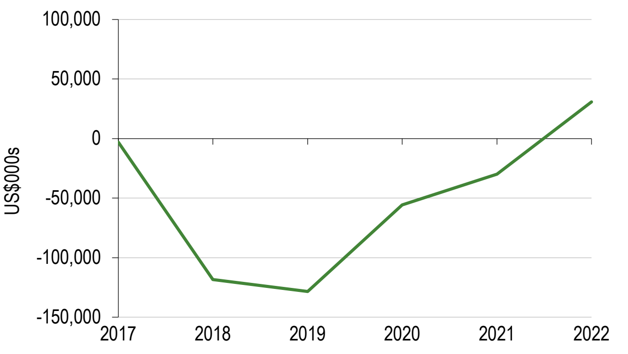
Type	H221	H121	FY20
Gross debt	89.2	87.8	89.2
Cash & restricted cash	(55.4)	(28.0)	(33.5)
Net senior debt (sub-total)	**33.8**	**59.8**	**55.7**
Restricted cash	0.0	0.1	0.4
Gold loan	0	0	5.7
Less refinance adjustment	0	0	(0.3)
Arranging fees	0	0	0.5
Sub-total	**33.8**	**59.9**	**62.0**
Derivative financial liability		0	9.6
IFRS 16 lease		5.0	4.5
Instalment sale liability		0.2	0.3
Sub-total		**65.2**	**76.4**

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

Most notable within the context of the above table is the extinction of the liabilities relating to PAF's gold loan and derivative financial instruments in H121, which represented the last vestiges of the company's revenue protection hedging contracts, which have now all been terminated.

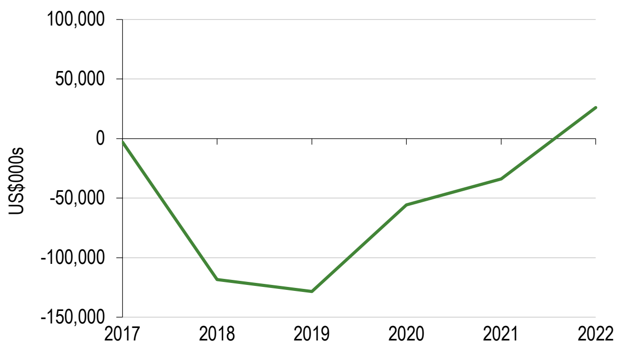
PAF's reported year-end net senior debt of US$33.8m is also very close to our prior forecast of US$29.8m, with the difference being easily attributable to changes in working capital. Notwithstanding capex commitments, we are therefore continuing to forecast that the company will achieve net debt free status during the FY22 financial year:

Exhibit 10: PAF previous estimated net debt profile forecast, FY17 to FY22e (US$000)



Source: Edison Investment Research, Pan African Resources

Exhibit 11: PAF current net debt profile forecast, FY17 to FY22e (US$000)



Source: Edison Investment Research, Pan African Resources

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

Exhibit 12: PAF group debt covenants

Measurement	Constraint	H121	FY20	H120	FY19 (actual)	H119 (actual)	FY18* (actual)	H118 (actual)	FY17 (restated)
Net debt:equity	Must be less than 1:1	0.3	0.4	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 December 2022	0.5	0.7	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 December 2022	17.7	10.1	5.8	4.1	3.64	4.61	4.62	19.32
Debt service cover ratio	Must be greater than 1.3:1	3.3	3.4	3.0	1.4	2.85	3.84	1.85	9.11

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

Exhibit 13: Financial summary

US$'000s	2018	2019	2020	2021e	2022e	2023e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue	145,829	218,818	274,107	369,020	340,870	364,948
Cost of sales	(107,140)	(152,980)	(158,457)	(207,557)	(165,540)	(171,018)
Gross profit	38,689	65,838	115,650	161,464	175,331	193,931
EBITDA	38,131	65,484	115,176	157,281	170,116	187,681
Operating profit (before GW and except.)	31,506	49,256	93,673	128,520	146,996	155,924
Intangible amortisation	0	0	0	0	0	0
Exceptionals	(16,521)	10,596	(28,593)	(6,704)	(1,730)	(1,730)
Other	0	0	0	0	0	0
Operating profit	14,985	59,852	65,079	121,816	145,266	154,194
Net interest	(2,222)	(12,192)	(12,881)	(6,153)	(3,042)	391
Profit before tax (norm)	29,284	37,064	80,791	122,367	143,954	156,315
Profit before tax (FRS 3)	12,763	47,660	52,198	115,662	142,224	154,585
Tax	2,826	(8,174)	(7,905)	(40,513)	(44,082)	(47,266)
Profit after tax (norm)	32,110	28,890	72,887	81,853	99,871	109,049
Profit after tax (FRS 3)	15,589	39,486	44,293	75,149	98,141	107,319
Average number of shares outstanding (m)	1,809.7	1,928.3	1,928.3	1,928.3	1,928.3	1,928.3
EPS - normalised (c)	1.31	1.64	3.78	4.24	5.18	5.66
EPS - FRS 3 (c)	0.87	2.05	2.30	3.90	5.09	5.57
Dividend per share (c)	0.00	0.15	0.84	1.01	1.04	2.50
Gross margin (%)	26.5	30.1	42.2	43.8	51.4	53.1
EBITDA margin (%)	26.1	29.9	42.0	42.6	49.9	51.4
Operating margin (before GW and except.) (%)	21.6	22.5	34.2	34.8	43.1	42.7
BALANCE SHEET						
Fixed assets	315,279	361,529	314,968	354,131	396,647	407,980
Intangible assets	56,899	49,372	43,466	45,806	48,206	50,606
Tangible assets	254,247	305,355	270,286	307,108	347,225	356,159
Investments	4,134	6,802	1,216	1,216	1,216	1,216
Current assets	29,009	31,601	53,648	95,461	112,239	215,071
Stocks	4,310	6,323	7,626	12,357	11,372	12,175
Debtors	22,577	18,048	11,245	26,408	24,301	26,018
Cash	922	5,341	33,530	55,449	75,319	175,631
Current liabilities	(44,395)	(63,855)	(78,722)	(104,074)	(84,082)	(137,509)
Creditors	(37,968)	(39,707)	(62,806)	(88,158)	(108,166)	(161,593)
Short-term borrowings	(6,426)	(24,148)	(15,916)	(15,916)	24,084	24,084
Long-term liabilities	(152,906)	(145,693)	(106,276)	(106,293)	(107,579)	(109,180)
Long-term borrowings	(112,827)	(109,618)	(73,333)	(73,333)	(73,333)	(73,333)
Other long-term liabilities	(40,078)	(36,076)	(32,943)	(32,961)	(34,247)	(35,847)
Net assets	146,988	183,582	183,620	239,224	317,225	376,362
CASH FLOW						
Operating cash flow	5,345	59,822	73,399	132,114	168,427	184,541
Net Interest	(6,076)	(14,685)	(10,834)	(6,153)	(3,042)	391
Tax	(1,634)	(4,497)	(5,804)	(17,418)	(20,334)	(21,388)
Capex	(127,279)	(52,261)	(30,849)	(67,924)	(65,636)	(43,090)
Acquisitions/disposals	6,319	466	207	0	0	0
Financing	11,944	(0)	0	0	(0)	0
Dividends	(11,030)	(2,933)	(2,933)	(18,700)	(19,544)	(20,141)
Net cash flow	(122,411)	(14,088)	23,186	21,919	59,870	100,312
Opening net debt/(cash)	3,138	118,332	128,424	55,719	33,800	(26,070)
Exchange rate movements	(619)	537	1,663	0	0	0
Other	7,836	3,459	47,856	0	0	0
Closing net debt/(cash)	118,332	128,424	55,719	33,800	(26,070)	(126,382)

Source: Company sources, Edison Investment Research

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