

# Pan African Resources

## Disposals hone investment case

Pan African (PAF) has made a number of announcements since Edison's last note in May, including an operational update, the conclusion of the Uitkomst disposal and the disposal of Phoenix Platinum to Sylvania for a total cash consideration of ZAR89m (£5.2m, US\$6.8m or US\$10.80/oz of Phoenix resource), which is actually accretive relative to PAF's current group-wide resource multiple of US\$8.40/oz. Most recently, on 18 August, it released its customary JSE listing requirement paragraph 3.4b announcement indicating annual EPS in the range 1.07-1.22p for FY17.

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/15	140.4	16.0	0.64	0.54	21.1	4.0
06/16	168.4	45.9	2.08	0.88	6.5	6.5
06/17e	193.1	22.5	1.01	0.49	13.3	3.6
06/18e	196.7	52.1	1.95	1.14	6.9	8.4

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

## Operational update

Confirmation that 173koz of gold was produced in FY17 was attributed to "the slower than anticipated restart of the underground mine at Evander...and operational challenges experienced at Barberton...which have now been remedied." Production guidance for FY18 is in excess of 190koz of gold and compares with Edison's expectation of 197koz (a variance of just 3.7%). While a degree of risk must be associated with respect to our expectations for production at PAF's underground operations in FY18, this is balanced roughly equally by the opportunity (or upside risk) presented at its tailings retreatment operations, which anyway typically carry a higher margin. In the longer term, the development of Elikhulu (which is now underway and fully funded) should increase output to c 250koz from FY20, which underpins our longer-term earnings expectations.

## Two more growth projects in the pipeline

In addition to Elikhulu, which "is progressing according to plan with project completion and first gold expected in the last quarter of the 2018 calendar year", Pan African has two other significant growth projects, namely the Barberton Mines Sub-Vertical Shaft Project at Fairview, which could add 7-10koz to PAF's production profile and the Evander Mines 7 Shaft No. 3 Decline & 2010 Pay Channel project.

## Valuation: 57% premium to PAF's current share price

Updating our long-term forecasts to reflect PAF's disposal of both Uitkomst and Phoenix Platinum, our absolute value of PAF has increased by 5%, from 20.22p/share to 21.22p/share. More immediately, trading at 6.9x FY18 normalised HEPS, Pan African's shares remain well below their historic share price multiples (with the exception of FY13), while also trading at more general ratios that are lower than its peers in at least 70% of cases in which P/E, yield and EV/EBITDA measures are considered (whether using Edison or consensus forecasts). Finally, PAF also has the second highest (consensus) forecast dividend yield of any dividend-paying gold company, globally.

## Operational updates

### Metals & mining

24 August 2017

**Price** **13.5p**

**Market cap** **£301m**

ZAR16.8994/£, ZAR13.2076/US\$, US\$1.2795/£

Net debt (£m) at end December 2016 33.2

Shares in issue 2,234.7m  
(effective 1,798.3m post consolidation)

Free float 77%

Code PAF

Primary exchange AIM/JSE

Secondary exchange N/A

### Share price performance



%	1m	3m	12m
Abs	(5.5)	(18.8)	(36.6)
Rel (local)	(4.7)	(17.8)	(41.4)
52-week high/low	21.8p	12.5p	

### Business description

Pan African Resources has five major precious metals assets in South Africa: Barberton (target output 95koz Au pa), the Barberton Tailings Retreatment Project (20koz), Evander (95koz), the Evander Tailings Retreatment Project (10koz) and Elikhulu (53koz).

### Next events

FY17 results 21 September

### Analyst

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## Investment summary

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Pan African has made a number of announcements since Edison's last note in [May](#), including an operational update, the conclusion of the Uitkomst disposal and the disposal of Phoenix Platinum, which are considered in the current report.

### Operational update

On 20 July, Pan African provided an operational update, including production data for FY17, plus its expectations for gold output in FY18. The salient features of the update were as follows:

- 173koz of gold produced in FY17.
- Evander Mines' 7 shaft refurbishment completed and restructuring programme materially complete.
- Elikhulu construction on track.
- Feasibility study completed for a sub-vertical shaft at the high grade Fairview mining operation at Barberton, with an estimated capex of ZAR105m to be spent over a two year period to yield an additional 7-10koz gold per annum.
- High grade drill results at Evander's 2010 Pay Channel, which has prompted a feasibility study to assess the economic viability of expanding operations to exploit this orebody.
- Net debt of ZAR66.7m as at 30 June 2017 (excluding paper investments).
- Production guidance for FY18 of >190koz.

### Phoenix Platinum disposal

Subsequent to its operational update, on 31 July, PAF further announced that it had successfully concluded a conditional agreement with Sylvania Platinum whereby Pan African will dispose of all of its shares and loan accounts with its wholly-owned subsidiary, Phoenix Platinum, to Sylvania for a total cash consideration of ZAR89m (£5.2m, US\$6.8m or US\$10.80 per Phoenix resource ounce). Note that this resource multiple of US\$10.80/oz is actually accretive relative to PAF's current group-wide resource multiple of US\$8.40/oz. The deal is subject to due diligence and the other conditions precedent typical for such a transaction, but is nevertheless expected to be finalised by 31 October. More significantly, it will allow Pan African to focus on its remaining five core assets (having already sold its Uitkomst colliery earlier in the year), as well as further improving its financial position prior to incurring the major portion of the capex (ZAR869.6m) relating to Elikhulu over the course of CY19.

### Short-term forecasts

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Confirmation that 173koz of gold was produced in FY17 compared with prior guidance of 181koz and Edison's prior expectation of 183.8koz and was attributed to "the slower than anticipated restart of the underground mine at Evander...and operational challenges experienced at Barberton...which have now been remedied." For the purposes of Edison's financial modelling, it has been assumed that the difference between actual and expected output was equally apportioned between Barberton and Evander, but that the Barberton variance was attributed to grade, while the Evander variance was attributed to gold lock up when the plant was restarted.

In addition, on 26 June, Pan African announced that all conditions precedent relating to the disposal of its interest in the Uitkomst colliery had been fulfilled and that the effective date of the transaction would be 30 June 2017, when Coal of Africa would take ownership, control and management of PAR Coal and Uitkomst (vs Edison's prior expectation of 1 July). Note that the effective date of the

transaction is consistent with PAF's past practice of timing major corporate transactions to coincide with an appropriate quarter's end. At the same time, Pan African also received its consideration, namely:

- ZAR125m in cash
- ZAR125m via the issue of 261.3m Coal of Africa shares to give PAF a 9.3% stake in the company
- ZAR25m in interest-bearing, deferred consideration instruments, which may be paid by CoAL at any time prior to the second anniversary of the effective date (ie 30 June 2019).

As a result, we have brought the cash-flow and £3.9m estimated exceptional gain occasioned by this disposal forward, such that it now appears in FY17's accounts (included in 'Profit/(loss) on group disposal' in Exhibit 1, below), rather than FY18's as previously.

Finally, with respect to its Phoenix Platinum transaction, we have assumed that the effective date of the disposal will be early in the first half, such that Phoenix will make no material contribution to PAF's income statement from FY18 onwards. In the meantime, we estimate that the sale is likely to crystallise a loss for Pan African relative to book value. Pan African's carrying value for Phoenix in FY16 was £9.1m in net assets. As such, we estimate that a cash consideration of £5.2m for this asset will lead to an impairment of £3.9m in the financial results for FY17. We have also adjusted for recent movements in foreign exchange rates. Finally, Pan African's strategy is not to hedge its gold production forward, except in specific circumstances and to provide protection against specific risks. In July 2015 however, in order to protect its operational revenue, Barberton Mines entered into a short-medium zero cost collar via the following instruments:

- A put option over 50,000oz of gold at a strike price of ZAR450,000/kg
- A call option over 25,000oz of gold at a strike price of ZAR505,000/kg

The decline in the price of gold, from ZAR625,886/kg on 30 June 2016 to ZAR506,917/kg on 31 December 2016, resulted in a mark-to-market fair value profit of ZAR90.0m (£5.3m) in H117, which was included in 'other' income in PAF's income statement. As at 30 June 2017 the rand price of gold was ZAR521,661/kg and consequently we expect the contribution to 'other' income from hedging in H217 to be negligible.

**Exhibit 1: Pan African underlying P&L statement by half-year (H116-H218e) actual and expected**

£000s (unless otherwise indicated)	H116	H216	H117	H217e (previous)	FY17e (previous)	H217e (new)	FY17e (new)	FY18e (previous)	FY18e (new)
Mineral sales	75,632	93,728	105,046	101,256	206,303	89,974	195,020	205,021	196,981
Realisation costs	(269)	(687)	(1,548)	(1,346)	(2,894)	(400)	(1,949)	(235)	(235)
Realisation costs (%)	0.36	0.73	1.47	1.47	1.40	0.50	1.00	0.12	0.12
On-mine revenue	75,363	93,041	103,498	99,911	203,409	89,573	193,071	204,785	196,745
Gold cost of production	(48,935)	(51,102)	(65,188)	(71,856)		(67,230)			
Pt cost of production	(1,651)	(1,796)	(2,300)	(2,529)		(2,471)			
Coal cost of production			(10,568)	(5,972)		(5,835)			
Cost of production	(50,586)	(57,637)	(78,056)	(80,357)	(158,414)	(75,537)	(153,593)	(133,356)	(131,562)
Depreciation	(5,277)	(5,180)	(6,450)	(8,032)	(14,482)	(7,008)	(13,457)	(10,770)	(10,005)
Mining profit	19,500	30,225	18,992	11,521	30,513	7,029	26,021	60,660	55,179
Other income/(expenses)	(3,486)	(8,697)	2,175	(2,302)	(127)		2,175	(1,082)	(1,293)
Profit/(loss) on group disposal	0	0	256	0	256	3,913	4,169	*3,913	
Loss in associate etc	0	0	0	0	0			0	
Impairment costs	0	0	0	0	0	(3,900)	(3,900)	0	
Royalty costs	(1,194)	(1,606)	(968)	(1,508)	(2,477)	(1,077)	(2,045)	(3,138)	(3,138)
Net income before finance items	14,819	19,923	20,455	7,711	28,166	5,965	26,420	60,353	50,748
Finances income	144	299	70						
Finance costs	(558)	(891)	(1,079)						
Net finance income	(414)	(592)	(1,009)	(1,025)	(2,034)	(513)	(1,522)	176	54
Profit before taxation	14,405	19,331	19,446	6,686	26,131	5,452	24,898	60,529	50,802
Taxation	(3,480)	(4,754)	(5,475)	(1,868)	(7,343)	(1,114)	(6,589)	(18,758)	(17,009)
Marginal tax rate (%)	24	26	28	28	28	20	26	31	33
Deferred tax									
Profit after taxation	10,925	14,577	13,970	4,818	18,788	4,338	18,309	41,771	33,793
EPS (p)	0.60	0.82	0.93	0.30	1.20	0.27	1.17	2.32	1.88
HEPS** (p)	0.60	0.82	0.91	0.30	1.20	0.27	1.15	2.32	1.88
Diluted EPS (p)	0.60	0.80	0.93	0.30	1.17	0.27	1.14	2.27	1.83
Diluted HEPS* (p)	0.60	0.80	0.91	0.30	1.17	0.27	1.12	2.27	1.83
Normalised HEPS (p)						0.27	1.01		1.95
Diluted normalised HEPS (p)						0.27	0.99		1.90

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

Note that Edison's forecasts are based on a gold price of US\$1,239/oz in H217 and US\$1,248/oz in FY18. They compare with consensus EPS forecasts (source Bloomberg, 23 August 2017), as follows:

**Exhibit 2: Pan African consensus EPS estimates, FY17 and FY18 (p/share)**

Year	Mean	Median	Range
FY17	1.711	1.400	1.000-2.660
FY18	2.146	2.160	1.390-2.600

Source: Bloomberg (23 August 2017)

## Valuation: 21.22p/share, rising to 24.26p in FY22

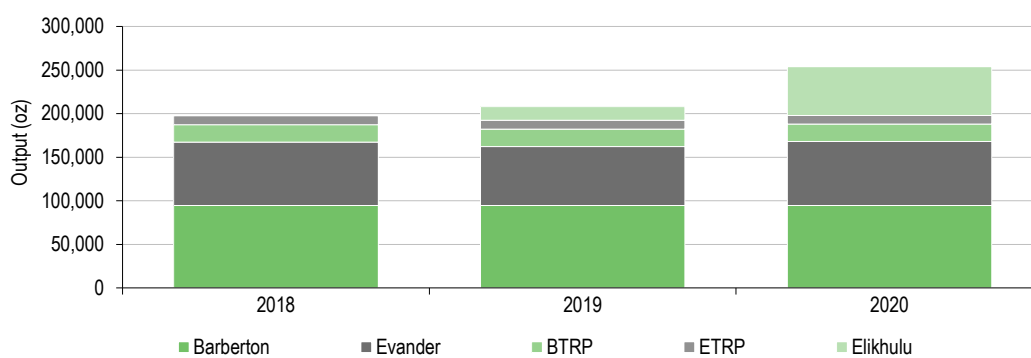
Ultimately, Edison's valuation is based on the present value of our estimate of the maximum potential stream of dividends payable to shareholders over the life of PAF's mining operations. After producing 173koz of gold in FY17, management has now indicated that it expects production of gold in FY18 in excess of 190koz. Edison's group-wide production estimate is 197koz in FY18, apportioned between its four remaining producing operations (ie excluding Phoenix), as follows:

**Exhibit 3: Pan African group-wide production, actual and forecast, FY14-FY18e**

Operation	FY14	FY15	FY16	FY17	FY18e
Barberton	88,738	81,493	84,690	71,520	94,641
Evander	76,556	63,558	73,496	43,544	72,700
BTRP	22,885	24,283	28,591	32,609	20,000
ETRP	0	6,523	18,151	25,369	10,000
<b>Total</b>	<b>188,179</b>	<b>175,857</b>	<b>204,928</b>	<b>173,042</b>	<b>197,341</b>

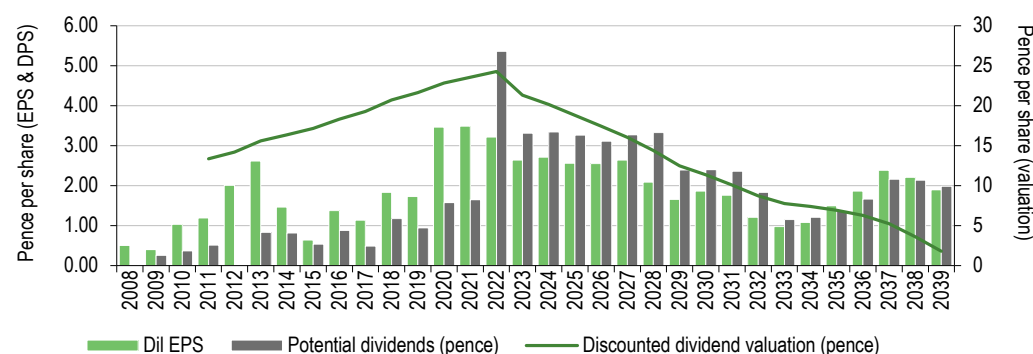
Source: Edison Investment Research, Pan African

Clearly, within the historical context, there must be a degree of risk attached to our production forecasts with respect to PAF's underground operations (Barberton and Evander). However, this is balanced (in our opinion roughly equally) by the opportunity (or upside risk) presented at its tailings retreatment operations. More significantly, the development of Elikhulu (which is now underway and fully funded) should increase output to c 250koz over the course of the next two financial years, which will underpin our longer-term earnings and cash-flow expectations:

**Exhibit 4: Edison estimate of PAF production, FY18e-FY20e (oz)**


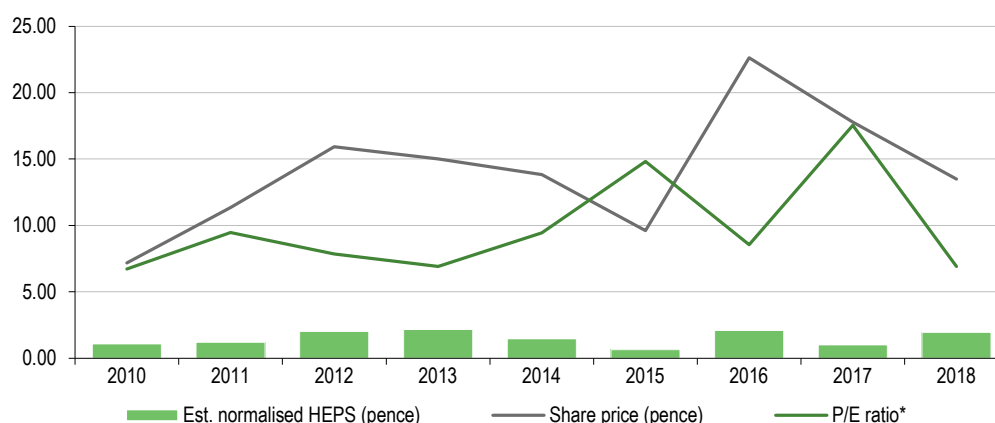
Source: Edison Investment Research

In the aftermath of the empirical factors considered, our valuation has risen by 1.00p to 21.22p cum-FY17 final dividend (at Edison's standard 10% discount rate) of 20.22p previously.

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


Source: Edison Investment Research, Pan African Resources

In the meantime, its shares remain noticeably cheap, within the historical context, when considered relative to our forecasts of normalised headline EPS in FY18 compared to prior years:

**Exhibit 6: Pan African historical current year price to normalised HEPS ratio**


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

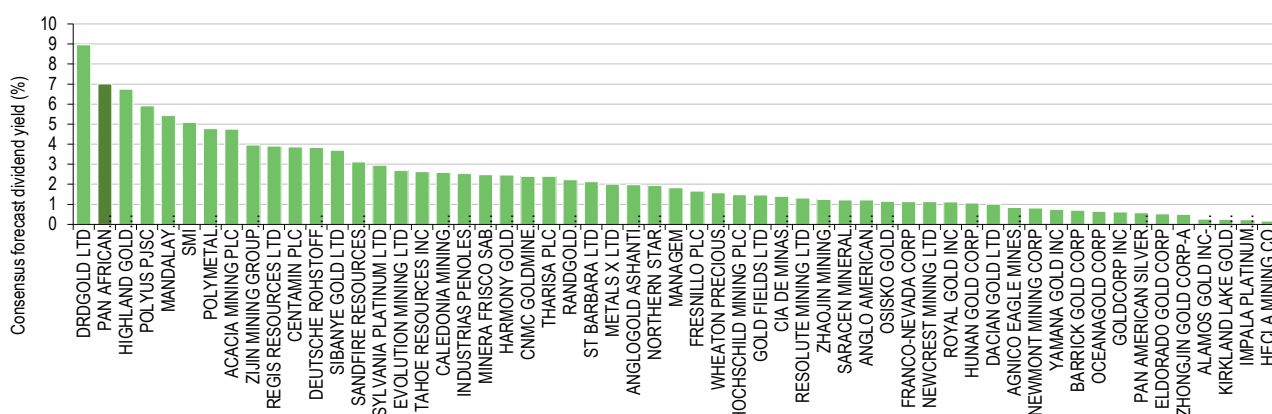
In relative terms, it also remains cheaper than its South African and London-listed peers on at least 70% of valuation measures (ie 21 out of 30 measures in the table below on an individual company basis) regardless of whether consensus or Edison forecasts are used:

**Exhibit 7: Comparative valuation of PAF with respect to South African peers**

	EV/EBITDA (x)		P/E (x)		Yield (%)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
AngloGold Ashanti	4.9	3.8	36.6	6.6	1.7	2.1
Gold Fields	4.6	4.3	27.5	24.6	1.3	1.6
Sibanye	5.4	3.6	113.1	10.8	2.8	4.2
Harmony	2.9	2.6	10.9	12.4	2.6	1.7
Randgold Resources	13.0	12.6	29.7	24.9	2.0	2.4
<b>Average (excluding PAF)</b>	<b>6.2</b>	<b>5.4</b>	<b>43.6</b>	<b>15.9</b>	<b>2.1</b>	<b>2.4</b>
Pan African (Edison)	6.4	3.9	13.3	6.9	3.6	8.4
Pan African (consensus)	6.7	4.7	8.1	6.6	5.1	6.6

Source: Edison Investment Research, Bloomberg. Note: Priced at 23 August 2017.

Finally, it has the second-highest consensus, forecast dividend yield of the 57 precious metal mining companies paying dividends to shareholders, globally (including selected royalty companies):

**Exhibit 8: Global gold mining companies ranked by forecast dividend yield (%)**


Source: Bloomberg. Note: Prices as at 23 August 2017.

Note that, in this respect, Pan African's forecast dividend yield is 2.49 standard deviations above the average yield of the population of 2.32%.

## Growth projects

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In addition to Elikhulu, which 'is progressing according to plan with project completion and first gold expected in the last quarter of the 2018 calendar year', Pan African has two significant growth projects, namely the Barberton Mines Sub-Vertical Shaft Project at Fairview and the Evander Mines 7 Shaft Number 3 Decline and 2010 Pay Channel project.

### Barberton Mines Sub-Vertical Shaft Project at Fairview

The Fairview mining operation is currently restricted by the hoisting capacity of its No. 3 Decline, which is used to access workings below 42 Level. This decline is currently used to transport employees, material and for rock hoisting and, with no modifications, future mining at depth will be compromised by increased travelling distances, reduced employee face time and a lack of sufficient capacity to ensure both adequate ore replacement and exploration development. With this in mind, Pan African has now completed a study with DRA to investigate the feasibility of constructing a raise-bored, sub-vertical shaft from Fairview's 42 Level to 64 Level and, potentially, in future, to 68 Level. The sub-vertical shaft will then be used to transport employees and material to the working areas, while No. 3 Decline will be used exclusively for rock hoisting, thereby significantly increasing overall capacity and production from this high grade mining area.

Estimated capex for the project (including contingencies) is ZAR105m (£6.1m) and would result in estimated, additional output of 7,000oz gold per annum, which 'can be optimised further to more than 10,000oz per annum.'

Assuming that construction takes place in CY18 and CY19 and that production begins in CY20 with cash costs of c US\$800/oz over 15 years, we estimate that this project could be worth in the order of US\$29.3m (1.32p/share) to Pan African, rising to US\$42.8m (1.95p/share) in the event of optimisation (at Edison's standard 10% discount rate) – which compares with a current valuation in the order of US\$1.0m if valued at PAF's current group-wide resource multiple.

### Evander Mines 7 Shaft No. 3 Decline and 2010 Pay Channel

The 2010 Pay Channel contains an estimated 2.19Moz of resources and is c 3km in tramming distance from 7 Shaft, which is currently used by EGM for hoisting to the Kinross metallurgical plant (cf 8 Shaft, which is c 10km distant). Harmony Gold Mining had previously developed the 7 Shaft mine working towards the 2010 Pay Channel, but discontinued the initiative in 2009, allowing the controlled flooding of the development ends and 7 Shaft's No. 3 Decline, from 22 Level to 18 Level.

To date, two boreholes have successfully been drilled into the 2010 Pay Channel, intersecting the Kimberley reef at a depth of c 2km. The first yielded a reef intersection with a width of 49cm and a grade of 36.04g/t (a metal content factor of 1,766cm.g/t), while the more recent recorded a width of 6cm and a grade of 36.8g/t (a metal content factor of 221cm.g/t). Additional drilling deflections will be performed to further delineate the orebody. In the meantime, in order for mining to commence, the infrastructure would need to be dewatered and only standard footwall and on-reef development (with associated engineering infrastructure) completed. With this in mind, a Pan African project team has been created and has commenced a feasibility study relating to the 7 Shaft No. 3 Decline and 2010 Pay Channel resource, which will initially consider the following issues:

- Collation of geological data from drill hole intersections and deflections.
- The cost and timing of dewatering and re-equipping the 7 Shaft No. 3 Decline from 18 Level to 22 Level.



- The development cost and timing to access the 2010 Pay Channel.
- The economic viability of the project.

The feasibility study is expected to be completed in the first quarter of the 2018 calendar year (ie H218). In the meantime, Pan African's management is of the opinion that, 'The 2010 Pay Channel can potentially increase Evander Mines' underground gold production significantly at a relatively low capital cost, using Evander Mines' established shaft and metallurgical facilities.'

Pro-rata to its resource of 2.19Moz, at Pan African's group-wide average resource multiple, the 2010 Pay Channel project should be worth in the order of US\$18.3m, or c 1.02 US cents per share. In all probability, management would probably hope and expect that this project would yield an NPV<sub>10</sub> to the company of several times this value in the event that its development is sanctioned by the board, subject to capex, opex etc.

## South African Mining Charter 3

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On 15 June 2017, the South African minister of mineral resources, Mosebenzi Zwane, announced the latest version of South Africa's Mining Charter, which became effective immediately. The charter has been championed by the South African President, Jacob Zuma, who has described it as representing "radical economic transformation", although others have interpreted his support as an attempt to distract observers and voters from a growing spate of corruption scandals. Either way, within hours of its gazetting, the Chamber of Mines of South Africa issued a public statement to the effect that the process followed by the Department of Mineral Resources in drawing up the charter was seriously flawed and, consequently, that it rejected its unilateral imposition on the industry. The Chamber confirmed that it would seek an interdict to suspend its implementation and that it will also seek a court declaration on the 'once empowered, always empowered' principle.

### Charter detail

Details of the charter are, *inter alia*: 1) new prospecting rights will be granted only to entities that are majority black-owned, 2) new mining rights will be granted only to entities that are 30% black-owned in prescribed categories of shareholders, 3) existing prospecting right and mining right holders top up to 30% black-ownership in 12 months, 4) 80% of total spend on services and holders to top up to 30% black-ownership in 12 months, 4) 80% of total spend on services and 70% of total spend on mining goods is to be sourced from prescribed categories of South African-based companies; and 5) increased employment quotas. Other requirements are that new mining rights' holders must pay 1% of turnover to their black shareholders on top of any dividends enjoyed by all shareholders and that 8% of black empowerment shares must be held on behalf of communities in a new agency called the Mining Transformation & Development Agency. This agency will also receive 2% of mining companies' payrolls as part of the 5% of payrolls that must be allocated for skills development. Non-compliance with certain of the targets will be regarded as a breach of the Mineral & Petroleum Resources Act, which could entitle the minister to suspend mining operations and to cancel rights granted and to pursue a criminal prosecution.

### Recriminations

Since the publication of the charter, charges and recriminations have flown on both sides, with questions being raised about the extent to which the Chamber of Mines had been consulted as well as the ANC's own internal Economic Transformation Committee. A number of corporate executives have said that they believe that the charter is "contradictory to company law". No lesser personage than the Deputy President (and former General Secretary of the NUM) Cyril Ramaphosa has called for the charter to be reconsidered and the African National Congress has noted that the legislation



may cause job losses. The minister responded by saying that, “Those who have made it their mission to preserve middle-class interests at all costs will oppose attempts to deepen transformation in the mining sector.”

### **Latest...**

Earlier in July, the Chamber of Mines said that it would apply to the high court to stop the implementation of the new charter. Describing aspects of it as “illegal” and “unconstitutional”, it went on to say that it “represented a most egregious case of regulatory over-reach” and that it amounted to “law-making without going through the legislative process”. In the short term, the submission requests that an urgent intervention be made in order to protect the industry and that, to this end, the charter be set aside as an unlawful exercise of power and then be interdicted while the High Court considers the merits of the review.

As such, there are two legal processes running concurrently – one being an application for an interdict and the other being an application for a judicial review (widely seen as the Chamber of Mines’ ultimate goal). The intention of the interdict is to halt the implementation of the charter pending the outcome of the Chamber of Mines’ application for judicial review of the charter. Both the DMR and the CoM have agreed to ask for the interdict application to be heard in September, which will give the former time to file its answering affidavit in opposition to the interdict application. In the meantime, DMR has agreed not to take any steps to actually implement the charter. As a result, on 14 July, the minister Mosebenzi Zwane said that he would be suspending the implementation of the charter pending the court case.

If the court grants the interdict, implementation of the charter will remain suspended until the review process is completed. If the interdict is not granted, the department could technically go ahead with implementation, although professional opinion appears to incline against this before the conclusion of the review.

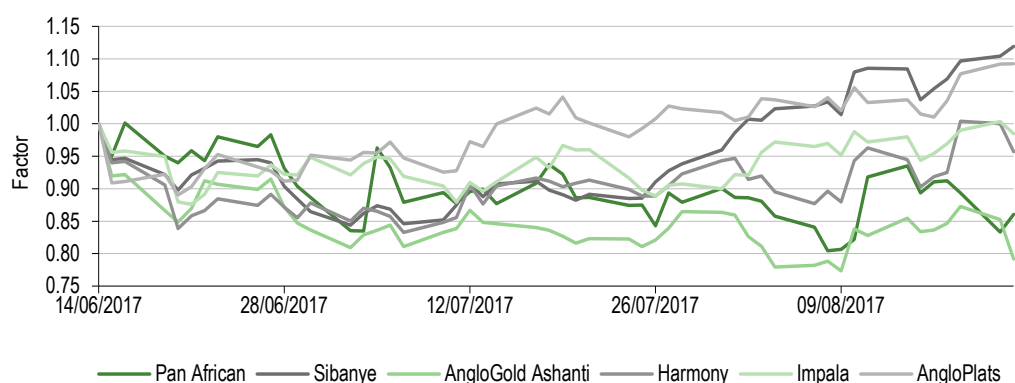
With respect to the review, the court could declare invalid the minister’s decision to promulgate the charter on a variety of grounds. If this is the case, it could order him to reconsider his decision or possibly even replace it with the court’s own decision. If it does find that the Mining Charter is the result of unjust administrative action however, professional opinion appears to be that it will most likely order him to reconsider the decision and begin the process of consultation all over again.

No sooner had the minister announced that he was suspending implementation of the charter pending the court case however, than the NUM said that it would go to court in an attempt to force the DMR to implement the charter as planned on the basis that it will immediately benefit workers and related mining communities.

### **Effect on Pan African**

Pan African is currently empowered via PAR Gold (formerly Shanduka Gold), which has a 19.53% headline stake in the company, plus its employee share ownership schemes. Self-evidently, this arrangement could be expanded and/or restructured. Nevertheless, the share prices of South African mining shares have fallen by an average 7.7% (on an unweighted arithmetic basis for the sample of six mining companies shown in Exhibit 9, below), after having fallen by as much as 13.3% in the 18 days immediately following the announcement of the new charter. Moody’s has inveighed that the proposals are credit negative for mining companies and stated that ‘...current shareholders are unlikely to support a further dilution of their equity interests’.

**Exhibit 9: Pan African share price vs peers, 14 June to present, rebased (underlying US\$)**



Source: Thomson Reuters Datastream, Edison Investment Research

As can be seen from the above graph, Pan African was initially one of the best performing South African mining shares in the immediate aftermath of the announcement of the charter, although it has arguably been slower to recover since mid-July with the exception of AngloGold Ashanti.

## Financials

In its operational update, Pan African reported that it had net debt of ZAR66.7m (£3.9m) as at 30 June 2017 cf £33.2m as at 31 December 2016. However, this excludes ZAR127.5m (£7.5m) of financial investments in the form of Coal of Africa shares which were issued to PAF in consideration of its sale of the Uitkomst colliery to CoAL on 30 June. Note that, for the purposes of Edison's financial forecasts, these are included in cash, such that we estimate that PAF had net cash of £3.6m as at 30 June.

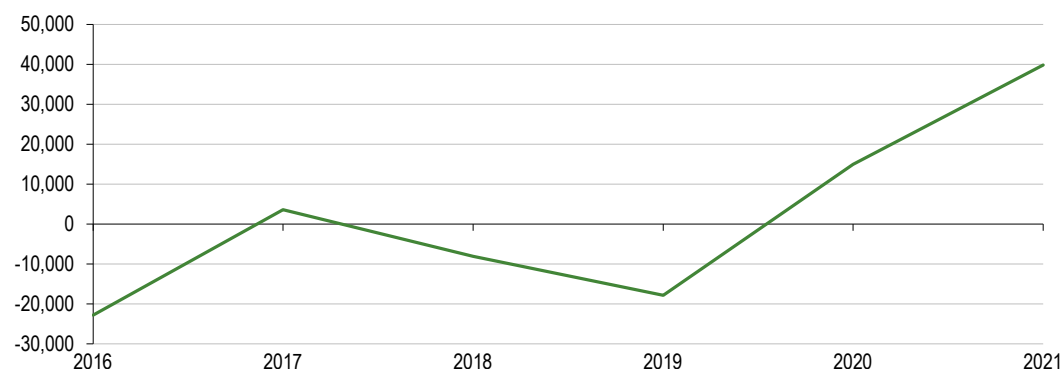
From here, our forecasts for Pan African's immediate capital expenditure commitments related to Elikhulu by financial year are as follows:

**Exhibit 10: Estimated Elikhulu capex requirements by financial year**

£000s	FY18	FY19	FY20	FY21	FY22	FY23
Total capex*	54,236	33,935	8,626	18,391	18,391	**6,382

Source: Pan African Resources, Edison Investment Research. Note: \*Includes sustaining capex, but excludes Phase 3 capex, which commences in FY26; \*\*no development capex, sustaining capex only.

Elikhulu's permitting process is reported to be progressing well. In the meantime, maintaining a dividend policy of 40% of free cash flows less sustaining capital, debt repayments and exceptional items, we estimate that Pan African's funding requirement will evolve during the period in which Elikhulu is being developed from FY16 to FY21, as follows:

**Exhibit 11: Pan African estimated funding requirement, FY16 to FY21e**


Source: Edison Investment Research, Pan African Resources

Note that PAF's maximum group net funding requirement of £17.8m in FY19, based on our estimates, equates to ZAR304m at prevailing forex rates, or gearing (debt/equity) of 7.8% and leverage (debt/[debt+equity]) of 7.3% - and is self-evidently well covered by PAF's existing debt facilities of ZAR880.2m (as at 30 June 2017), including a ZAR800m revolving credit facility (which can anyway be expanded to ZAR1,100m) as well as its new ZAR1.0bn underwritten seven-year debt facility with Rand Merchant Bank specifically relating to the development of Elikhulu.

**Exhibit 12: Financial summary**

	£'000s	2009	2010	2011	2012	2013	2014	2015	2016	2017e	2018e
Year end 30 June		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>											
Revenue		52,860	68,344	79,051	100,905	133,308	154,202	140,386	168,404	193,071	196,745
Cost of sales		(28,505)	(40,554)	(45,345)	(46,123)	(71,181)	(106,394)	(110,413)	(108,223)	(153,593)	(131,562)
Gross profit		24,355	27,790	33,705	54,783	62,127	47,808	29,973	60,181	39,478	65,183
EBITDA		22,890	25,023	28,540	45,018	53,276	44,165	28,448	57,381	37,433	62,046
Operating profit (before GW and except.)		20,529	21,897	25,655	41,759	47,278	34,142	18,110	46,925	23,976	52,041
Intangible amortisation		0	0	0	0	0	0	0	0	0	0
Exceptionals		(5,025)	(335)	0	(48)	7,232	(12)	(198)	(12,183)	2,444	(1,293)
Other		0	0	0	0	0	0	0	0	0	0
Operating profit		15,504	21,562	25,655	41,711	54,510	34,130	17,912	34,742	26,420	50,748
Net interest		807	594	762	516	197	(191)	(2,109)	(1,006)	(1,522)	54
Profit before tax (norm)		21,336	22,491	26,417	42,274	47,475	33,951	16,001	45,919	22,454	52,095
Profit before tax (FRS 3)		16,311	22,156	26,417	42,226	54,707	33,939	15,803	33,736	24,898	50,802
Tax		(8,219)	(7,656)	(9,248)	(12,985)	(12,133)	(7,155)	(4,133)	(8,234)	(6,589)	(17,009)
Profit after tax (norm)		13,117	14,835	17,169	29,290	35,342	26,796	11,868	37,685	15,865	35,086
Profit after tax (FRS 3)		8,091	14,500	17,169	29,242	42,574	26,785	11,670	25,502	18,309	33,793
Average number of shares outstanding (m)		1,104.4	1,366.3	1,432.7	1,445.2	1,619.8	1,827.2	1,830.4	1,811.4	1,564.3	1,798.3
EPS - normalised (p)		0.85	1.07	1.20	2.03	2.18	1.46	0.64	2.08	1.01	1.95
EPS - FRS 3 (p)		0.40	1.04	1.20	2.02	2.63	1.47	0.64	1.41	1.17	1.88
Dividend per share (p)		0.26	0.37	0.51	0.00	0.83	0.82	0.54	0.88	0.49	1.14
Gross margin (%)		46.1	40.7	42.6	54.3	46.6	31.0	21.4	35.7	20.4	33.1
EBITDA margin (%)		43.3	36.6	36.1	44.6	40.0	28.6	20.3	34.1	19.4	31.5
Operating margin (before GW and except.) (%)		38.8	32.0	32.5	41.4	35.5	22.1	12.9	27.9	12.4	26.5
<b>BALANCE SHEET</b>											
Fixed assets		67,198	74,324	97,281	86,075	249,316	223,425	220,150	230,676	234,571	285,253
Intangible assets		35,397	36,829	38,229	23,664	38,628	37,040	37,713	38,682	40,418	42,154
Tangible assets		31,801	37,495	59,052	62,412	209,490	185,376	181,533	190,725	192,884	241,830
Investments		0	0	0	0	1,199	1,010	905	1,269	1,269	1,269
Current assets		4,949	17,677	15,835	41,614	26,962	23,510	17,218	22,016	49,045	30,703
Stocks		358	1,126	1,457	1,869	6,596	5,341	3,503	4,399	11,233	6,156
Debtors		2,201	3,795	4,254	6,828	15,384	12,551	10,386	14,891	20,171	18,619
Cash		2,389	12,756	10,124	19,782	4,769	5,618	3,329	2,659	17,575	5,862
Current liabilities		(6,101)	(7,084)	(8,960)	(11,062)	(24,066)	(24,012)	(22,350)	(32,211)	(18,450)	(36,150)
Creditors		(6,080)	(7,084)	(8,960)	(11,062)	(23,202)	(19,257)	(17,301)	(25,230)	(18,450)	(36,150)
Short-term borrowings		(21)	0	0	0	(864)	(4,755)	(5,049)	(6,981)	0	0
Long-term liabilities		(9,686)	(11,431)	(13,410)	(14,001)	(80,004)	(63,528)	(67,850)	(69,506)	(66,395)	(67,750)
Long-term borrowings		0	0	(181)	(869)	(11,133)	(8,141)	(16,313)	(18,456)	(13,975)	(13,975)
Other long-term liabilities		(9,686)	(11,431)	(13,228)	(13,132)	(68,871)	(55,387)	(51,537)	(51,049)	(52,420)	(53,775)
Net assets		56,360	73,487	90,746	102,626	172,208	159,396	147,167	150,975	198,772	212,056
<b>CASH FLOW</b>											
Operating cash flow		25,420	25,207	31,968	49,092	61,618	45,996	26,423	47,130	25,204	73,323
Net Interest		807	594	762	516	314	(606)	(2,109)	(1,006)	(1,522)	54
Tax		(10,886)	(7,476)	(10,743)	(11,616)	(13,666)	(8,536)	(3,943)	(7,777)	(5,218)	(15,653)
Capex		(5,705)	(6,764)	(21,712)	(17,814)	(27,197)	(21,355)	(19,554)	(14,097)	(33,386)	(65,898)
Acquisitions/disposals		(4,205)	0	0	(1,549)	(96,006)	0	(760)	(30,999)	16,303	5,210
Financing		0	48	1,545	259	47,112	349	(235)	15,207	38,236	0
Dividends		(6,774)	0	(5,376)	(7,416)	0	(14,684)	(15,006)	(9,882)	(13,239)	(8,749)
Net cash flow		(1,343)	11,609	(3,557)	11,471	(27,826)	1,164	(15,184)	(1,425)	26,378	(11,713)
Opening net debt/(cash)		(5,313)	(2,369)	(12,756)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	(3,600)
Exchange rate movements		(2,642)	(281)	925	(1,813)	594	(839)	(276)	812	0	0
Other		1,041	(940)	(181)	(688)	1,090	(375)	4,705	(4,131)	0	0
Closing net debt/(cash)		(2,369)	(12,756)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	(3,600)	8,113

Source: Company sources, Edison Investment Research

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