EDISON

Pan African Resources

Return to dividend paying status in FY19 a priority

FY18 results

Metals & mining

While Pan African Resources' (PAF) pre-tax profit for the year to end-June 2018 was within 5% of our prior forecast (on an underlying basis, excluding impairments), bottom-line results were significantly ahead of our expectations as a result of a material tax credit applied to Evander. While FY18 was a challenging year, in which the board elected not to recommend a final dividend (as expected), an idea of its future financial potential may be gleaned from the fact that underlying earnings from continuing operations nevertheless amounted to £19.6m, or 1.08p per share (1.60p excluding 'other' items).

Year end	Revenue (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
06/17	167.8	19.4	1.22	0.45	6.5	5.7
06/18	154.2	2.4	1.60	0.00	4.9	N/A
06/19e	160.1	31.8	1.09	0.47	7.3	5.9
06/20e	187.1	58.2	1.83	0.86	4.3	10.9

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

Elikhulu continues accelerated track to production

Management reiterated its production guidance of 170,000oz in FY19, reflecting the fact that commissioning at Elikhulu is progressing "very well", with 56kg (1,800oz) of gold produced from 1–19 of September and with a forecast of 90–100kg (2,894–3,215oz) for the month as a whole. By November, the plant is expected to be operating close to capacity of 1Mt and 145kg (4,600oz) gold per month.

Gold weakness not (yet) offset by rand

At the same time, however, the price of gold has fallen by 8.2%, or more than US$100/oz, from over US$1,300/oz in the first five months of CY18 to under US$1,200/oz at the time of writing – only partially offset by a 5.3% decline in the value of the South African rand relative to its FY18 average. As a result, we have reduced our gold price forecast for H119, from US$1,320/oz to US$1,225/oz, which has reduced our earnings and cash flow expectations for FY19.

Valuation: 17.01p plus 20.1m underground Wits oz

Updating our long-term forecasts to reflect the mid-year decline in the gold price, our headline absolute valuation of PAF has eased by just 3.9% to 12.50p. Including new projects and other assets, however, this increases to 17.01p plus the value of c 20.1m underground Witwatersrand ounces, which could lie anywhere in the range of 0.17–4.15p per share, depending on market conditions. At the same time, if PAF's average price to normalised current year EPS ratio of 9.4x in the period FY10–18 is applied to our forecasts, then its share price could be expected to be 10.2p in FY19 and 17.2p in FY20. In the meantime, it remains cheaper than its South African- and London-listed gold mining peers on at least 91% of valuation measures on the basis of our forecasts, or 94% on the basis of consensus forecasts (see Exhibit 9). Finally, based on our assumptions, PAF's dividend yield is also the eighth-highest of the 65 precious metals' companies expected to pay a dividend over the course of the next 12 months (see Exhibit 10).

11 October 2018

Price	**7.90p**
Market cap	**£177m**

ZAR19.0312/£, ZAR14.3813/US$, US$1.3236/£

Net debt at end-June 2018 (£m) excluding ZAR58.8m (£3.1m) of MC Mining shares (formerly Coal of Africa)	91.0
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	(1.7)	12.9	(36.6)
Rel (local)	(0.6)	19.8	(34.4)
52-week high/low		15.8p	6.5p

Business description

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

Next events

Elikhulu commercial production	Imminent
AGM	November 2018
H119 results	February 2019

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Edison profile page

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FY18

While Pan African's pre-tax profit for the year to end-June 2018 was within 5% of our prior forecast (on an underlying basis, excluding impairments), bottom-line results were materially ahead of our expectations as a result of a tax credit applied not only to the Evander underground operation, which was closed during the period, but also to Evander Mine's continuing operations. Results were otherwise dominated by the decision to close Evander underground operations during the period – leading to an impairment of £106.3m (cf £177.2m of group net assets attributable to Evander, excluding goodwill, as at 31 December 2017), the fact that Barberton Gold Mines suffered 58 days of lost production owing to industrial action and community unrest, and a strong rand leading to a weak gold price in local currency terms. As expected, the board elected not to recommend a final dividend this year. While FY18 was thus a challenging year for Pan African, an idea of its future financial potential may be gleaned from the fact that underlying earnings from continuing operations nevertheless amounted to £19.6m, or 1.08p per share. In addition, Barberton recorded one million fatality-free shifts and there were no fatalities across the group over the entire 12-month period. Results for the full year, on a variety of different reporting bases and in conjunction with Edison's prior expectations, are shown in the table below:

Exhibit 1: PAF underlying P&L statement by half-year (H115–H218e) actual and expected

£000s (unless otherwise indicated)	H118	H218e	FY18e	H218 (implied)	FY18	FY18e (excl Evander)	FY18 (underlying)	FY18 underlying vs FY18e (excl Evander) (%)	FY18 (as reported)
Mineral sales	82,900	71,933	154,833	74,000	156,900	104,410	108,500	3.9	108,500
Realisation costs	(1,500)	(800)	(2,300)	(1,200)	(2,700)	(1,551)	(2,000)	28.9	(2,000)
Realisation costs (%)	1.81	1.11	1.49	1.62	1.72	1.49	1.84	23.5	1.84
On-mine revenue	81,400	71,133	152,533	72,800	154,200	102,860	106,500	3.5	106,500
Cost of production	(69,600)	(63,400)	(133,000)	(69,200)	(138,800)	(74,346)	(77,700)	4.5	(77,700)
Depreciation	(5,900)	(9,277)	(15,177)	(5,100)	(11,000)	(9,433)	(4,900)	-48.1	(4,900)
Mining profit	5,900	(1,544)	4,356	(1,500)	4,400	19,081	23,900	25.3	23,900
Other income/(expenses)	(800)	(9,486)	(10,286)	(14,900)	(15,700)	(800)	(4,200)	425.0	(4,200)
Loss in associate etc	(400)	0	(400)	400	0	**0	**0	N/A	**0
Loss on disposals	0	0	0	(300)	(300)	0	0	N/A	0
Impairment costs	0	N/A	N/A	(106,300)	(106,300)	N/A	Excl.	N/A	(8,200)
Royalty costs	(300)	(234)	(534)	(300)	(600)	(875)	(400)	-54.3	(400)
Net income before finance	4,400	(11,263)	(6,863)	(122,900)	(118,500)	17,406	19,300	10.9	11,100
Finances income	700			1,300	2,000		1,500	N/A	1,500
Finance costs	(800)			(2,600)	(3,400)		(3,200)	N/A	(3,200)
Net finance income	(100)	(529)	(629)	(1,300)	(1,400)	(629)	(1,700)	170.3	(1,700)
Profit before taxation	4,300	(11,792)	(7,492)	(124,200)	(119,900)	16,777	17,600	4.9	9,400
Taxation	(1,000)	2,688	1,688	27,600	26,600	(10,092)	2,100	-120.8	2,100
Marginal tax rate (%)	23.3	22.8	22.5	22.2	22.2	61.6	(11.9)	-119.3	(11.9)
PAT (continuing ops)	3,300	(9,104)	(5,804)	(96,600)	(93,300)	6,685	19,600	193.2	11,500
Loss from discontinued ops	N/A	N/A	N/A	N/A	N/A	(12,490)	(6,700)	-46.4	(104,800)
Profit after tax	3,300	(9,104)	(5,804)	(96,600)	(93,300)	(5,804)	12,900	-322.3	(93,300)
Headline earnings	3,300	(9,104)	(5,804)	10,000	13,300	(5,804)	13,300	-329.2	13,300
EPS (p)	0.18	(0.50)	(0.32)	(5.31)	(5.15)	(0.32)	0.71	-322.3	(5.15)
HEPS* (p)	0.20	(0.50)	(0.32)	0.55	0.73	(0.32)	0.73	-329.2	0.73
EPS from continuing ops (p)						0.35	1.08	208.6	

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.

Note that Exhibit 14 is presented on the basis of the FY18 column (column 6, above) where 'discontinued operations' are fully consolidated. Normalised profit before tax of £2.4m in Exhibit 14 may be reconciled to the above table from FY18 mining profit of £4.4m (column 6) less £0.6m in royalties and a further £1.4m of net interest. The difference in PAF's underlying profit after tax of

£12.9m (column 8 of the above table) and headline earnings of £13.3m is a £0.3m "adjustment on sale of asset held for sale" and a £0.1m rounding difference.

Otherwise, costs of production for continuing operations (including realisation costs) increased by 4.4% in rand terms, the main contributors being as follows:

- salaries and wages (38.9% of the total) +7.6%
- electricity (9.6% of the total) +9.6%
- mining and processing (33.7% of the total) -9.6%
- engineering and technical (6.7% of the total) +13.0%

The other major feature of the company's results was a higher than expected capex number and therefore a higher level of net debt at the year-end, as capital expenditure relating to the Elikhulu project, in particular, accelerated in line with the project's development timeline from FY19 into FY18. Whereas we had been expecting ZAR902.1m in capex related to the Elikhulu project to be expended in FY18 therefore, in fact ZAR1,256.1m was expended. As a result, instead of ZAR537.8m being expended in FY19, we are now expecting this figure to reduce to ZAR300.0m – notwithstanding the decision to increase the project's throughput by 200ktpm in December in order to incorporate the existing ETRP throughput to benefit from the larger project's economies of scale.

In the meantime, management is reviewing the merits of mining the Evander 8 Shaft pillar, which may extend the final closure date of the shaft, generate positive cash flows and provide further employment opportunities for those affected by the Evander Section 189 retrenchment process.

FY19 guidance

Management reiterated its production guidance of 170,000oz in FY19, reflecting the fact that commissioning at Elikhulu is reported to be progressing "very well", with 56kg (1,800oz) of gold produced from 1–19 of September and with a forecast of 90–100kg (2,894–3,215oz) for the month as a whole. By November, the plant is expected to be operating close to 1Mt, producing 145kg (4,600oz) gold, per month. Otherwise, underground operations at Barberton met their production targets towards the end of the financial year under the influence of two (cycling) production platforms. Management is now in the process of establishing a third such platform, which will increase underground mining flexibility still further and intends to increase underground development rates by c 60%. Finally, a 1.7MW re-grind mill has successfully been installed at the BTRP, which will allow it to efficiently treat coarser fraction tailings and open up the older, (albeit lower grade) Harper dumps for processing. A summary of our (unchanged) production expectations, by business segment is as follows:

Exhibit 2: PAF group-wide production, actual and forecast, FY14–FY19e (oz)

Operation	FY14	FY15	FY16	FY17	H118	H218	FY18	FY19e (current)
Barberton	88,738	81,493	84,690	71,763	32,159	40,966	73,125	84,641
Evander	76,556	63,558	73,496	43,304	32,734	15,831	48,565	0
BTRP	22,885	24,283	28,591	26,745	8,452	9,052	17,504	20,000
ETRP	0	6,523	18,151	29,473	11,937	9,313	21,250	20,000
Elikhulu	0	0	0	0	0	0	0	45,359
Total	**188,179**	**175,857**	**204,928**	**173,285**	**85,282**	**75,139**	**160,444**	**170,000**

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

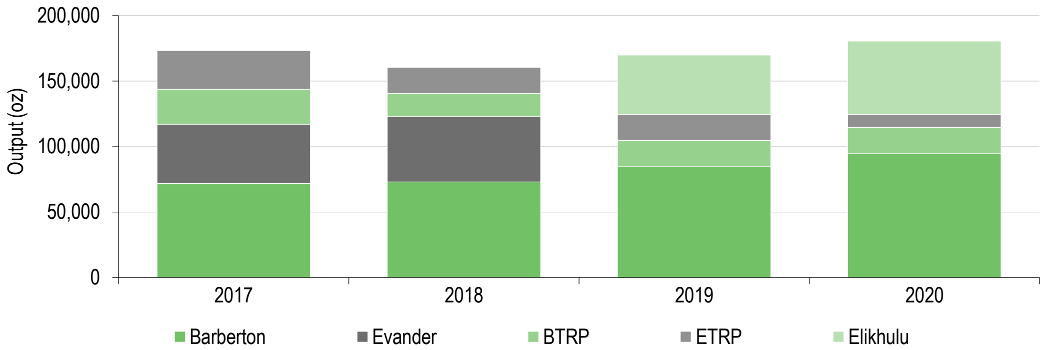
Note that, all other things being equal, the level of production implied from Elikhulu for FY19 suggests 81% capacity utilisation during the year or, alternatively, that it will operate at the equivalent of full capacity for 9.7 months out of the 12-month period.

Forecasts and valuation

Four producing assets again

The development of Elikhulu should increase group-wide output at Pan African to c 181koz in FY20 and will largely replace production lost from Evander underground, albeit at a much higher margin – which underpins our longer-term earnings and cash-flow expectations.

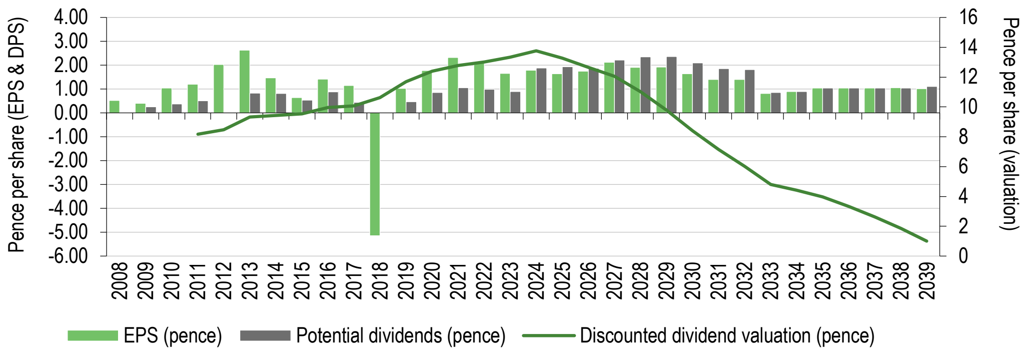
Exhibit 3: Edison estimate of PAF production, FY17–FY20e (oz)



Source: Edison Investment Research

At the same time, however, the price of gold has fallen by 8.2%, or more than US$100/oz, from over US$1,300/oz in the first five months of CY18 to under US$1,200/oz at the time of writing – only partially offset by a 5.3% decline in the value of the South African rand relative to its FY18 average. As a result, we have reduced our gold price forecast for H119, which has reduced our earnings and cash-flow expectations (all other things being equal) and, consequently, our absolute value of PAF (based on its four producing assets) from 13.01p per share (see EGM's Parthian shot, published on 19 July 2018) to 12.50p per share, based on the present value of our estimated maximum potential stream of dividends payable to shareholders over the life of its mining operations (applying a 10% discount rate).

Exhibit 4: PAF estimated life of operations diluted EPS and (maximum potential) DPS



Source: Edison Investment Research, Pan African Resources

Note that Edison's EPS updated forecast of 1.09p in FY19 compares to a mean consensus forecast of 1.172p within a range 0.000–1.700p (source: Bloomberg 11 October), while its FY20 forecast of 1.83p compares to a mean consensus of 1.940p within a range 1.3–2.8p.

Other assets

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

Exhibit 5: Evander underground resource estimate

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

Source: Pan African Resources, Edison Investment Research

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

Exhibit 6: EGM underground

Valuation basis	Wits Gold acquisition in December 2012	Bushveld PtE exploration oz (Edison November 2017)	PAF acquisition of EGM in 2012
In-situ value (US$/oz)	0.22	2.78	5.26
Implied EGM underground valuation (US$m)	4.4	56.0	105.9
Ditto (US cents per share)	0.23	2.90	5.49
Ditto (pence per share)	0.17	2.19	4.15

Source: Edison Investment Research

Note that, relative to the equivalent valuation in our report entitled Pan African Resources: *EGM's Parthian shot*, published on 19 July 2018, the only change in our valuation in Exhibit 6 reflects changes in prevailing forex rates.

Other major assets attributable to Pan African include the Egoli project (formerly the 2010 pay channel project) at Evander, the Fairview sub-vertical shaft project and the Royal Sheba project.

The results of a recent optimisation study based on an earlier DRA Global feasibility study on Egoli are:

- initial capex of ZAR870m (vs ZAR572m previously);
- a pre-tax internal rate of return of 34% based on a gold price of ZAR547,000/kg (cf 46% previously);
- a project pre-tax NPV of ZAR1.04bn at a 12.4% real discount rate or ZAR1.354m at a 10% discount rate (cf ZAR1.74bn at a 10% discount rate, previously); and
- an incremental all-in sustaining cost of c ZAR300,000/kg over the life of the mine (cf ZAR275,000/kg previously).

Adjusting our existing model (see our note Pan African Resources: *A second glance at the first half*, published on 23 April 2018) to incorporate the higher capex and opex than previously forecast, we calculate an NPV for potential dividends payable by Egoli to investors of £68.0m, at its customary 10% discount rate, or 3.53p/share. Readers should note, however, that while still attractive, management is not making the Egoli project a priority in the foreseeable future owing to its deep level 'Witwatersrand' nature.

Recent drilling at Royal Sheba has increased resources once again, most recently from 720koz to 899koz – 39% of which is at or near surface at a grade of 3.81g/t. The mineralisation is encapsulated in a shear envelope of the Sheba Fault, ranging in width from 5–25m, with gold occurring in sulphide minerals and as native gold. In-situ grades range from 0.5g/t to 174g/t. Significantly, however, the mineralisation is non-refractory and amenable to processing via normal CIL methods and, as a result, could increase gold production from Barberton "significantly" in future years by a means of an open pit and a simple expansion of processing capacity. Management expects to finalise a definitive feasibility study for Royal Sheba by February 2019. However, it is expected that this project will be financeable from debt and cash flows only, without recourse to the equity market. In the meantime, at Pan African's prevailing enterprise value rating of US$10.13 per resource ounce, Royal Sheba's resources are worth a pro-rata US$9.1m, or 0.47 US cents, or 0.36p, per share.

Following the success at Royal Sheba, Pan African has also embarked on an extended exploration programme within Barberton Mines' mining right at both the Sheba and New Consort mines around historical workings and for potential new satellite deposits.

Finally, Pan African has commenced construction of a new sub-vertical shaft at Fairview to bypass the hoisting bottleneck at its No 3 Decline and to facilitate improved access to additional mining platforms below 42 Level at the high grade 11-block of the MRC. Project capex is forecast to be ZAR105m over two to three years. Following commissioning of the shaft, it is expected that productivity improvements will yield an additional 7–10koz of gold per annum owing to the increased hoisting capacity.

Including its growth projects, a summary of our overall valuation of PAF is therefore now as follows:

Exhibit 7: PAF absolute valuation summary

Project	Current valuation (pence/share)	Previous valuation (pence/share)
Existing three producing assets plus Elikhulu	12.50	13.01
Egoli	3.53	3.91
Fairview Sub-Vertical Shaft Project	0.46	0.46
Royal Sheba	*0.36	N/A
MC Mining shares*	0.16	0.15
Sub-total	**17.01**	**17.53**
EGM underground resource	0.17–4.15	0.17–4.15
Total	**17.18–21.16**	**17.70–21.68**

Source: Edison Investment Research. Note: *Provisional pending finalisation of DFS.

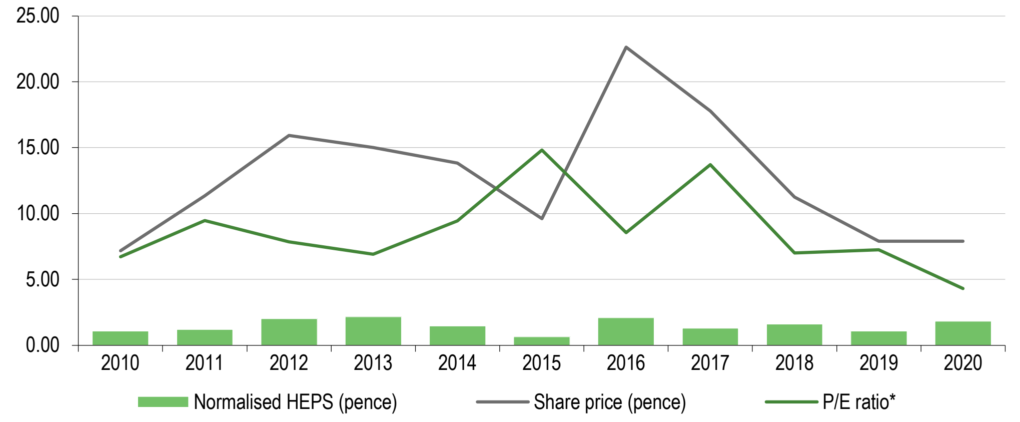
Note that the valuation changes to the Fairview Sub-Vertical Shaft project also reflect changes to prevailing foreign exchange rates only.

Historical and relative valuation

Historical

Exhibit 8, below, depicts PAF's average share price in each of its financial years, from FY10 to FY17 and compares this with normalised HEPS in the same year. For FY19 to FY20, the current share price (of 7.90p) is compared with Edison's forecast normalised HEPS for FY19 to FY20. As is apparent from the graph, PAF's price to normalised HEPS ratio for FY19 is already towards the bottom of its recent historical range (based on our forecasts – see Exhibit 14, below), with this ratio having been lower in FY18, FY13 and FY10 only. Moreover, it falls well below the range in FY20, by which time we expect Elikhulu to be operating at full capacity.

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



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

Stated alternatively, if PAF's average contemporary price to normalised EPS ratio of 9.4x in the period FY10-18 is deemed to be 'correct', then its share price should be 10.2p in FY19 and 17.2p in FY20.

Relative

In the meantime, over the next two years PAF remains cheaper than its South African and London-listed gold mining peers on at least 91% of valuation measures (33 out of 36 measures in the table below on an individual company basis) using our forecasts, or 94% of measures (34 out of 36 measures) using consensus forecasts:

Exhibit 9: Comparative valuation of PAF with South African peers

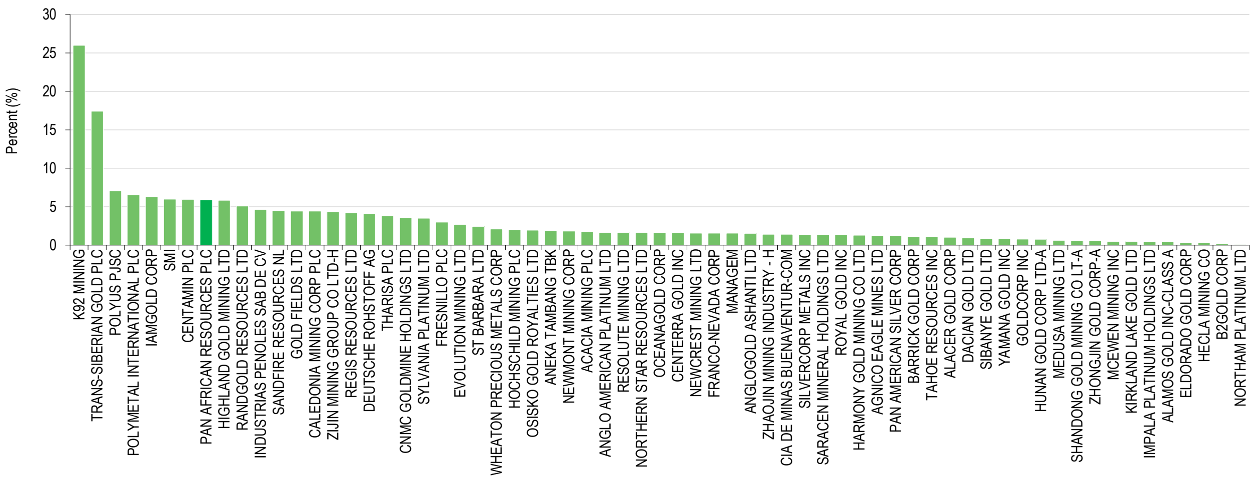
	EV/EBITDA (x)		P/E (x)		Yield (%)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
AngloGold Ashanti	4.2	3.5	16.9	10.4	1.0	1.6
Gold Fields	3.5	2.8	42.0	12.1	2.5	5.0
Sibanye	5.1	3.8	29.0	8.4	0.2	1.0
Harmony	2.8	2.8	6.2	6.5	1.3	1.3
Randgold Resources	11.0	9.3	25.3	20.5	3.8	5.3
Centamin	4.3	3.4	16.2	12.7	4.7	6.0
Average (excluding PAF)	**5.2**	**4.3**	**22.6**	**11.8**	**2.2**	**3.4**
PAF (Edison)	3.6	2.5	7.3	4.3	5.9	10.9
PAF (consensus)	3.0	2.4	6.6	4.2	5.0	7.6

Source: Edison Investment Research, Bloomberg. Note: Peers priced at 11 October 2018; Randgold Resources considered as separate entity prior to merger with Barrick (announced 24 September 2018).

Dividend

PAF has a target dividend pay-out ratio of 40% of net cash generated by operating activities, after allowing for the effect of sustaining capital on cash flow, contractual debt repayments and one-off items. As previously forecast by Edison, the Pan African board elected not to recommend a final dividend for the 2018 financial year. However, it stated that recommencing distributions to shareholders is a priority for the future. On the basis of the aforementioned policy, coupled with our expectations, we estimate that the company will be capable of paying a dividend of 0.47p per share in FY19, in which case it will have the eighth highest dividend yield of the 65 ostensibly precious metals' companies paying dividends to shareholders within the course of the next 12 months:

Exhibit 10: Global gold mining companies ranked by forecast dividend yield (%)



Source: Bloomberg (BEst Div Yld BF12M) for peers, Edison Investment Research for PAF FY19. Note: Consensus data for peers priced 11 October 2018.

Financials

PAF had £91.0m of net debt on its balance sheet as at 30 June 2018 (cf £42.2m as at December 2017, £7.0m as at June 2017 and £33.2m as at December 2016). As such, net debt equated to a gearing (net debt/equity) ratio of 78.6% and a leverage (net debt/[net debt + equity]) ratio of 44.4%.

FY18 net debt was higher than our previous forecast (see Pan African Resources: *EGM's Parthian shot*, published on 19 July 2018). However, this merely reflected higher than expected investment in Elikhulu as capex was brought forward from FY19 into FY18 in line with the project's accelerated timeline. Whereas we had been expecting ZAR902.1m in Elikhulu capex in FY18 therefore, in fact ZAR1,256.1m was expended. As a result, instead of ZAR537.8m being expended in FY19, we are now expecting this figure to reduce to ZAR300.0m – notwithstanding the decision to increase the project's throughput by 200ktpm in December in order to incorporate the existing ETRP's throughput to benefit from the larger project's economies of scale. PAF's major immediate capital requirements continue to relate to the Elikhulu project. However, as at end-June, the most intense phase of capex has been completed. Including the project to expand Elikulu's throughput capacity by 200ktpm from December 2018 to incorporate the existing ETRP feed, our forecasts for PAF's immediate future capital expenditure commitments relating to the project (including sustaining capital) are as follows:

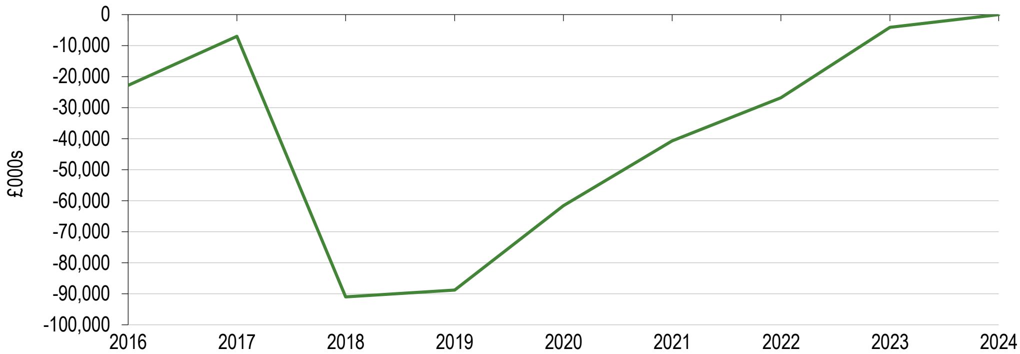
Exhibit 11: Estimated Elikhulu capex requirements by financial year, FY19-23

£000s	FY19	FY20	FY21	FY22	FY23
Total capex*	20,187	5,160	13,384	13,384	3,045

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

After accelerating capex into FY18, from FY19, however, we anticipate that Pan African will record (albeit marginal) positive cash flow in FY19 before taking off thereafter to c £40m per annum thereafter, such that, while maintaining a dividend policy of 40% of free cash flows less sustaining capital, debt repayments and exceptional items, its net debt funding requirement, on our estimates, will evolve as follows in the period from FY16 to FY24e:

Exhibit 12: PAF estimated funding requirement, FY16 to FY24e



Source: Edison Investment Research, Pan African Resources

Debt is financed via a ZAR1bn revolving credit facility (£53.0m at current exchange rates) plus a ZAR1bn facility relating to the Elikhulu project and a banking facility. Principal on the Elikhulu facility is payable in equal instalments until maturity in June 2024, while the RCF itself has been restructured to extend its maturity from mid-2020 previously to at least beyond mid-2024 currently. The group's revolving credit facility (RCF) debt covenants and their actual recorded levels within recent history are as follows:

Exhibit 13: PAF group debt covenants

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

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

Note that the net debt:EBITDA covenant is measurable only on 31 December 2019 in order to accommodate the construction of the Elikhulu project, while the interest cover ratio has temporarily been reduced to 2.3:1 until December 2018.

Post year-end events

On 7 September, PAF announced that Barberton Mines Pty Ltd had successfully concluded a three-year wage agreement with the National Union of Mineworkers (the NUM) and the United Association of South Africa (UASA), which together represent the majority of workers at Barberton. The agreement provides for an average annual wage increase of approximately 6.5% and 5.5% for NUM and UASA members respectively over three years in local currency terms. The negotiations were successfully concluded with no industrial action or work stoppages, which compares with a settlement of +8% per annum after 2.5 days of stoppages in the equivalent negotiations last year.

Exhibit 14: Financial summary

£000s	2011	2012	2013	2014	2015	2016	2017	2018	2019e	2020e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS										
Revenue	79,051	100,905	133,308	154,202	140,386	168,404	167,759	154,200	160,111	187,067
Cost of sales	(45,345)	(46,123)	(71,181)	(106,394)	(110,413)	(108,223)	(134,007)	(138,800)	(104,226)	(105,200)
Gross profit	33,705	54,783	62,127	47,808	29,973	60,181	33,752	15,400	55,885	81,867
EBITDA	28,540	45,018	53,276	44,165	28,448	57,381	32,417	14,800	54,491	79,237
Operating profit (before GW and except.)	25,655	41,759	47,278	34,142	18,110	46,925	21,924	3,800	41,334	66,156
Intangible amortisation	0	0	0	0	0	0	0	0	0	0
Exceptionals	0	(48)	7,232	(12)	(198)	(12,183)	(1,248)	(122,300)	(1,252)	(1,252)
Other	0	0	0	0	0	0	0	0	0	0
Operating profit	25,655	41,711	54,510	34,130	17,912	34,742	20,676	(118,500)	40,082	64,904
Net interest	762	516	197	(191)	(2,109)	(1,006)	(2,523)	(1,400)	(9,555)	(7,988)
Profit before tax (norm)	26,417	42,274	47,475	33,951	16,001	45,919	19,401	2,400	31,779	58,167
Profit before tax (FRS 3)	26,417	42,226	54,707	33,939	15,803	33,736	18,153	(119,900)	30,527	56,915
Tax	(9,248)	(12,985)	(12,133)	(7,155)	(4,133)	(8,234)	(243)	26,600	(10,774)	(22,793)
Profit after tax (norm)	17,169	29,290	35,342	26,796	11,868	37,685	19,158	29,000	21,004	35,374
Profit after tax (FRS 3)	17,169	29,242	42,574	26,785	11,670	25,502	17,910	(93,300)	19,753	34,122
Average number of shares outstanding (m)	1,432.7	1,445.2	1,619.8	1,827.2	1,830.4	1,811.4	1,564.3	1,809.2	1,928.3	1,928.3
EPS - normalised (p)	1.20	2.03	2.18	1.46	0.64	2.08	1.22	1.60	1.09	1.83
EPS - FRS 3 (p)	1.20	2.02	2.63	1.47	0.64	1.41	1.14	(5.16)	1.02	1.77
Dividend per share (p)	0.51	0.00	0.83	0.82	0.54	0.88	0.45	0.00	0.47	0.86
Gross margin (%)	42.6	54.3	46.6	31.0	21.4	35.7	20.1	10.0	34.9	43.8
EBITDA margin (%)	36.1	44.6	40.0	28.6	20.3	34.1	19.3	9.6	34.0	42.4
Operating margin (before GW and except.) (%)	32.5	41.4	35.5	22.1	12.9	27.9	13.1	2.5	25.8	35.4
BALANCE SHEET										
Fixed assets	97,281	86,075	249,316	223,425	220,150	230,676	273,635	245,100	256,840	253,124
Intangible assets	38,229	23,664	38,628	37,040	37,713	38,682	41,425	49,200	50,936	52,673
Tangible assets	59,052	62,412	209,490	185,376	181,533	190,725	224,687	192,800	202,803	197,352
Investments	0	0	1,199	1,010	905	1,269	7,523	3,100	3,100	3,100
Current assets	15,835	41,614	26,962	23,510	17,218	22,016	37,090	20,000	21,942	52,037
Stocks	1,457	1,869	6,596	5,341	3,503	4,399	7,583	2,700	5,344	6,244
Debtors	4,254	6,828	15,384	12,551	10,386	14,891	14,813	14,800	11,859	13,856
Cash	10,124	19,782	4,769	5,618	3,329	2,659	9,447	700	2,940	30,138
Current liabilities	(8,960)	(11,062)	(24,066)	(24,012)	(22,350)	(32,211)	(31,251)	(33,400)	(35,902)	(43,660)
Creditors	(8,960)	(11,062)	(23,202)	(19,257)	(17,301)	(25,230)	(27,105)	(28,200)	(30,702)	(38,460)
Short-term borrowings	0	0	(864)	(4,755)	(5,049)	(6,981)	(4,146)	(5,200)	(5,200)	(5,200)
Long-term liabilities	(13,410)	(14,001)	(80,004)	(63,528)	(67,850)	(69,506)	(62,893)	(115,900)	(116,298)	(117,329)
Long-term borrowings	(181)	(869)	(11,133)	(8,141)	(16,313)	(18,456)	(12,290)	(86,500)	(86,500)	(86,500)
Other long-term liabilities	(13,228)	(13,132)	(68,871)	(55,387)	(51,537)	(51,049)	(50,603)	(29,400)	(29,798)	(30,829)
Net assets	90,746	102,626	172,208	159,396	147,167	150,975	216,581	115,800	126,582	144,173
CASH FLOW										
Operating cash flow	31,968	49,092	61,618	45,996	26,423	47,130	29,945	(1,900)	47,068	75,285
Net Interest	762	516	314	(606)	(2,109)	(1,006)	(2,141)	(1,400)	(9,555)	(7,988)
Tax	(10,743)	(11,616)	(13,666)	(8,536)	(3,943)	(7,777)	(8,003)	0	(10,377)	(21,762)
Capex	(21,712)	(17,814)	(27,197)	(21,355)	(19,554)	(14,097)	(36,748)	(94,200)	(24,897)	(9,366)
Acquisitions/disposals	0	(1,549)	(96,006)	0	(760)	(30,999)	8,364	4,400	0	0
Financing	1,545	259	47,112	349	(235)	15,207	34,638	9,800	0	0
Dividends	(5,376)	(7,416)	0	(14,684)	(15,006)	(9,882)	(13,290)	(8,200)	0	(8,971)
Net cash flow	(3,557)	11,471	(27,826)	1,164	(15,184)	(1,425)	12,764	(91,500)	2,240	27,198
Opening net debt/(cash)	(12,756)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	6,989	91,000	88,760
Exchange rate movements	925	(1,813)	594	(839)	(276)	812	238	(1,447)	0	0
Other	(181)	(688)	1,090	(375)	4,705	(4,131)	2,787	8,936	0	0
Closing net debt/(cash)	(9,943)	(18,913)	7,228	7,278	18,033	22,778	6,989	91,000	88,760	61,562

Source: Pan African Resources, Edison Investment Research. Note: 2,234.7m shares in issue reduce to 1,928.3m after cancellation of shares effectively held in treasury upon consolidation of PAR Gold (formerly Shanduka Gold).