Pan African Resources

Tennant Creek acquisition

TCMG transaction analysis

Metals and mining

On 5 November, Pan African Resources (PAF) announced that it is to acquire privately owned Tennant Consolidated Mining Group (TCMG) in Australia's Northern Territory for a total consideration of US$54.2m in an all-share deal that involves it issuing an additional 125.4m shares (or 6.5% of its existing share capital). The acquisition price equates to an undemanding US$42.15 per resource ounce of gold or US$139.21 per reserve ounce. While we expect the acquisition to have little effect on PAF's earnings in FY25 (apart from the increase in share capital), we estimate that it will increase FY26 earnings by US$24.6m (or 19.1%) and FY27 earnings by US$42.6m (or 29.6%) and, on this basis, will undoubtedly be accretive.

Year end	Revenue (US$m)	PBT* (US$m)	EPS* (c)	DPS (c)	P/E (x)	Yield (%)
06/23**	321.6	92.9	3.54	0.95	11.3	2.3
06/24**	373.8	119.8	4.68	1.20	8.6	3.0
06/25e	459.3	190.5	7.09	1.42	5.7	3.5
06/26e	597.7	207.1	7.51	5.81	5.4	14.3

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles and exceptional items. **FY23 and FY24 'as reported' and not restated or adjusted.

Unique Tennant characteristics in a Tier 1 jurisdiction

Pan African's purchase consideration of TCMG of US$54.2m compares with its principal project's (Noble's) NPV_{15} of US$79.3m (4.1c or 3.3p/share pre-dilution) at its feasibility study gold price of US$2,214/oz. At present, it has a relatively short formal life of five years. However, it will add an average of 56,967oz (21.4%) to PAF's production profile in its first three years of operation and 108,600oz (38.9%) in its final two. Nevertheless, we estimate that it offers an IRR of at least 41.5% under even the most conservative gold price assumptions and could have commanded a valuation as high as US$85.7m based on its Tier 1 jurisdiction alone.

Valuation: Steady but inclined upwards

Our overall valuation of Pan African has risen by 3.1% in the aftermath of the TCMG acquisition, to 42.21c per share (33.32p), albeit this reflects the recent 'above trend' strength of the rand against both the US dollar and sterling, as much as anything else. However, this valuation rises by a further 22.42–27.44c (17.70–21.66p) if other assets, such as Egoli and the Soweto cluster, are taken into account. It also reflects Edison's relatively conservative gold price assumptions (US$2,124/oz nominal on average for the period CY25–30). At the current gold price, all other things being equal, our valuation almost doubles to 83.52c (65.92p). Alternatively, if PAF's historical average price to normalised HEPS ratio of 8.2x for the period FY10–24 is applied to our FY25 and FY26 forecasts, it implies a value of 45.71p in FY25, followed by 48.44p in FY26. As such, PAF's current share price of 31.95p could be interpreted as discounting normalised HEPS rising to only 4.95c per share in FY25 and/or FY26 (cf 5.27c 'adjusted' in FY24 and our forecasts of 7.09c and 7.51c in FY25 and FY26, respectively). In the meantime, PAF remains cheaper than its principal London- and South African-listed gold mining peers on at least 83% of commonly used valuation measures if Edison forecasts are used or 91% if consensus forecasts are used. Finally, performing a relative valuation analysis, its peers imply a comparable valuation for PAF of 58.47p based on our year one EPS estimate and 49.52p based on our year two EPS estimate.

14 November 2024

Price	**31.95p**
Market cap	**£712m**

ZAR23.1595/£, ZAR18.2858/US$, US$1.2669/£, A$1.5463/US$

Net debt (US$m) at end-June 2024	104.4
Shares in issue (effective estimated 2,041.9m post-acquisition, excluding treasury)	2,222.9m
Free float	85%
Code	PAF
Primary exchanges	AIM, JSE
Secondary exchanges	Level 1 ADR, OTCQX Best Market and A2X

Share price performance

%	1m	3m	12m
Abs	(7.1)	10.0	109.4
Rel (local)	(4.6)	12.7	92.1
52-week high/low		37.80p	15.16p

Business description

Pan African has four major gold producing assets in South Africa: Barberton (target output 80koz pa), the Barberton Tailings Retreatment Project, or BTRP, (20koz), Elikhulu (55koz) and Evander, incorporating Egoli (currently 30koz, rising to >100koz). One more asset (MTR) is scheduled to enter production imminently at 50koz pa.

Next events

AGM	21 November 2024
Ex-div (LSE)	27 November 2024
FY24 dividend payment	10 December 2024
H125 results	February 2025

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Edison profile page

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Tennant Creek acquisition

On 5 November, Pan African announced that it is to acquire privately owned TCMG for a total consideration of US$54.2m in an all-share deal that involves it issuing an additional US$50.8m in shares for the 92% of TCMG that it does not already own. At Pan African's current price, we calculate that, all other things being equal, this will involve the issue of 125.4m new shares – or 6.5% of the current effective total – to take PAF's outstanding share capital to 2,041.9m shares (excluding 306.4m shares in treasury).

Tennant Creek is a town located roughly in the geographical centre of the Northern Territory of Australia, approximately 1,000km south of Darwin and c 500km north of Alice Springs.

The Tennant Creek goldfield was discovered in the early 1930s and was mined until the early 2000s when the gold price fell to a monthly low of US$276.80/oz in January 2002, resulting in the termination of large swathes of mines in this region. Prior to that, however, the Tennant Creek goldfield was known as one of the highest-grade goldfields in Australia, with production over the c 70 years of its life yielding 5.5Moz Au, 348kt Cu, 1.9Moz Ag and 21,600t bismuth.

After 30 years of mining at the Nobles underground mine, the crown pillar collapsed in 1967 owing to erosional degradation of the iron oxide lithologies. The broken material was excavated from the failure zone and stockpiled on what is now known as the Crown Pillar Stockpile (CPS), with some of this material being treated while a new plant was being constructed during 1967–68. Thereafter, Nobles was mined as an open pit mine (Australia's largest until 1985), albeit the balance of the CPS remained untreated.

As a result of past activity, the mineral deposits in the Tennant Creek goldfield are well understood and form part of the hematite and magnetite end members of an iron oxide copper gold (IOCG) style of mineralisation and express themselves as cone-like or blanket-like breccia sheets within granitic margins, or as long ribbon-like breccia or massive iron oxide deposits within faults or shear zones. Continuity of these deposits is proven with strike lengths of more than 50m, widths of 2–24m or more and down-dip extents of hundreds of meters. Typically, these deposits are enriched in copper, gold, cobalt, silver, uranium and bismuth. In addition to brownfields exploration, the goldfield is also very prospective for greenfield discoveries such as the Mauretania and Marathon deposits on the Emmerson Resources exploration joint venture (a JV agreement between TCMG and Emmerson Resources) and the Bluebird deposit. In 2022, realising the consolidation opportunity present in the area, TCMG acquired 100% of the tenements around the historical highest-grade and largest producers of the region, namely, Nobles, Warrego and Juno, with the intent to expedite exploration and increase the conversion of mineral resources into mineral reserves.

Nobles project

The Nobles project currently comprises reserves of 0.4Moz gold contained within a resource of 1.3Moz Au (Exhibit 1). At Pan African's full consideration price of US$54.2m for TCMG, this equates to a purchase price of US$42.15 per resource ounce of gold or US$139.21 per reserve ounce.

Exhibit 1: Nobles resources and reserves

Resources				Reserves				Conversion		
Category	Tonnage (Mt)	Grade (g/t)	Contained gold (koz)	Category	Tonnage (Mt)	Grade (g/t)	Contained gold (koz)	Tonnage (%)	Grade (%)	Contained gold (%)
Measured	0	0	0	Proven	0	0	0	N/A	N/A	N/A
Indicated	10.6	3.06	1,043	Probable	3.9	3.1	389	36.8	101.3	37.3
Inferred	3.5	2.14	241	Possible	0	0	0	0.0	0.0	0.0
Total	**14.1**	**2.83**	**1,284**	**Total**	**3.9**	**3.10**	**389**	**27.7**	**109.5**	**30.3**

Source: Pan African Resources, Edison Investment Research. Note: In accordance with the guidelines of The Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the JORC Code, 2012).

The execution of the Nobles project is based on a feasibility study positing the processing of material through a carbon-in-leach (CIL) gold plant which was purchased from the Great Australian Mine in Cloncurry in Queensland. The plant has been dismantled and is in the process of being reconstructed at Nobles over a 13-month period ending in H1 CY25, with commissioning and first gold anticipated in June 2025. The processing of surface material in the form of the CPS, the Nobles North tailings and Nobles North Waste Rock Dump will form the initial base ore feed of the plant, followed by the Nobles complex pits, Eldorado (pit and underground), Juno, Chariot and Golden Forty underground mines over a period of five years. The processing plant is rated for a throughput of 840ktpa and a gold recovery of 94% and will be the only functioning gold processing plant in the region at present and the largest ever operated in the Tennant Creek goldfield. An additional three years of production is then being targeted by management in the form of near-term, walk-up targets including Mauretania and White Devil. The initial capital cost for commissioning is estimated at US$35.7m and is fully funded via two debt facilities, consisting of US$6.7m from the Northern Territory of Australia and US$31.5m from Keyview Investment Management.

Reported highlights of TCMG's feasibility study are:

- Expected payback in less than three years (at a gold price of US$2,600/oz).
- Forecast production of c 50koz pa over the initial three years of the life of the operation derived from low-risk surface stockpiles and tailings storage facilities (TSFs).
- Initial all-in sustaining cost (AISC) of US$1,300/oz in the first three years of operation.
- Life of mine free cash flow of US$420m at US$2,600/oz Au.
- Project NPV_{15} US$129.7m (6.8 US cents, or 5.3p per undiluted Pan African share) and real, ungeared internal rate of return (IRR) of 144%, based on the exploitation of current mineral reserves only and a US$2,600/oz gold price.

The project is reported to be close to existing road and rail infrastructure and in an area that is not considered environmentally sensitive.

Edison does not have access to the proprietary details of TCMG's feasibility study. However, on the basis of the information made available to the public to date, we have constructed the following financial model of the Nobles project (Exhibit 2). Readers should note that we have necessarily used Edison's (real) gold price assumptions in this model, as set out in our report, *Gold – Shades of the 1970s*, published in September 2023. These average US$1,849/oz (June–June) in real terms over the initial five year life of the Nobles mine and are therefore at a material (27.6%) discount to the current spot price of gold of US$2,554/t and also at a material (16.5%) discount to the US$2,214/oz price at which the TCMG feasibility study was conducted. This necessarily depresses Edison's calculated NPV_{15} relative to that calculated in the feasibility study. However, readers will readily appreciate that, should the gold price fall to Edison's level and Edison's lower NPV thus become more relevant, Pan African's all scrip consideration will also similarly decline.

Exhibit 2: Nobles feasibility study results

	2025	2026	2027	2028	2029	2030	Totals/averages
Tonnes milled (t)		840,000	840,000	840,000	840,000	840,000	**4,200,000**
Head grade (g/t)		2.45	2.66	1.62	4.41	4.14	**3.06**
Contained gold (oz)		66,170	71,915	43,723	119,149	111,915	**412,872**
Recovery (%)		94.0	94.0	94.0	94.0	94.0	**94.0**
Gold produced (oz)		62,200	67,600	41,100	112,000	105,200	**388,100**
Gold price (US$/oz)		1,935	1,966	1,890	1,726	1,727	**1,819**
Revenue (US$000's)		120,365	132,933	77,666	193,267	181,703	**705,934**
Working cost (US$/oz)		1,312	901	1,697	1,249	857	***1,203**
Working cost (US$000's)		81,606	60,908	69,747	139,888	90,156	**442,305**
Working cost (US$/t)		97.15	72.51	83.03	166.53	107.33	**105.31**
AISC (US$/oz)		1,312	901	1,697	1,249	857	**1,140**
AISC (US$000's)		81,606	60,908	69,747	139,888	90,156	**442,305**
Gross profit (US$000's)		38,759	72,026	7,920	53,379	91,546	**263,629**
Depreciation (US$000's)		-11,300	-23,700	-36,200	-50,600	-50,600	**-172,400**
Pre-tax profit (US$000's)		27,459	48,326	-28,280	2,779	40,946	**91,229**
Tax (US$000's)		8,238	14,498	0	834	12,284	**35,853**
Effective tax rate (%)		30	30	30	30	30	**39.3**
Profit after tax (US$000's)		19,221	33,828	-28,280	1,945	28,662	**55,376**
Free cash-flow excluding capital cost (US$000's)		30,521	57,528	7,920	52,545	79,262	**227,776**
Sustaining capex (US000's)	0	0	0	0	0	0	**0**
Capex (US$000's)	-35,700	-20,800	-49,600	-37,500	-28,800	0	**-172,400**
Pre-tax free cash flow (US$000's)	-35,700	17,959	22,426	-29,580	24,579	91,546	**126,929**
Post-tax free cash flow (US$000's)	-35,700	9,721	7,928	-29,580	23,745	79,262	**91,076**
Pre-tax NPV_{15} (US$000's)	32,166						
Post-tax NPV_{15} (US$000's)	10,680						
Pre-tax IRR (%)	41.5%						
Post-tax IRR (%)	23.1%						

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

Aside from the gold price, key assumptions in Edison's financial model are a 30% mining tax rate, that sustaining capex is minimal and that development capex is incurred for each new, sequential area of production (Eldorado, Juno, Chariot and Golden Forty) in the year before the operation is first mined. At this stage, the effect of working capital during the life of the project is also ignored, except for initial working capital that is included in the initial capex requirement of US$35.7m.

A comparison between the outputs of Edison's financial model (shown in Exhibit 2) and those published by Pan African in its acquisition announcement are shown in Exhibit 3, below:

Exhibit 3: Nobles feasibility study results

Project	Tennant Creek	Edison at Tennant Creek assumptions	Variance (%)	Tennant Creek at US$2,600/oz Au	Edison at US$2,600/oz Au	Variance (%)	Edison at Edison assumptions
Life of mine (years)	5.5	5.0	-9.1	**5.5	5.0	-9.1	5.0
Tonnes processed (Mt)	4.4	4.2	-4.5	**4.4	4.2	-4.5	4.2
Gold produced (koz)	390.4	388.1	-0.6	**390.4	388.1	-0.6	388.1
Gold price (US$/oz)	2,214	2,214	0.0	2,600	2,600	0.0	1,819
Working cost (US$/oz)	1,191	*1,203	1.0	**1,191	*1,203	1.0	*1,203
Capital cost (US$m)	171.2	172.4	0.7	**171.2	172.4	0.6	172.4
Free cash flow (excl. capital cost, US$m)	329	331	0.6	420	448	+6.7	228
Pre-tax NPV_{15} (US$m)		113.2	N/A		196.7	N/A	32.2
Post-tax NPV_{15} (US$m)	79.3	69.7	-12.1	129.7	130.7	0.8	10.7
Pre-tax IRR (%)	108.2	97.7	-10.5pp	144	164.3	+30.3pp	41.5
Post-tax IRR (%)		63.2	N/A		108.6		23.1

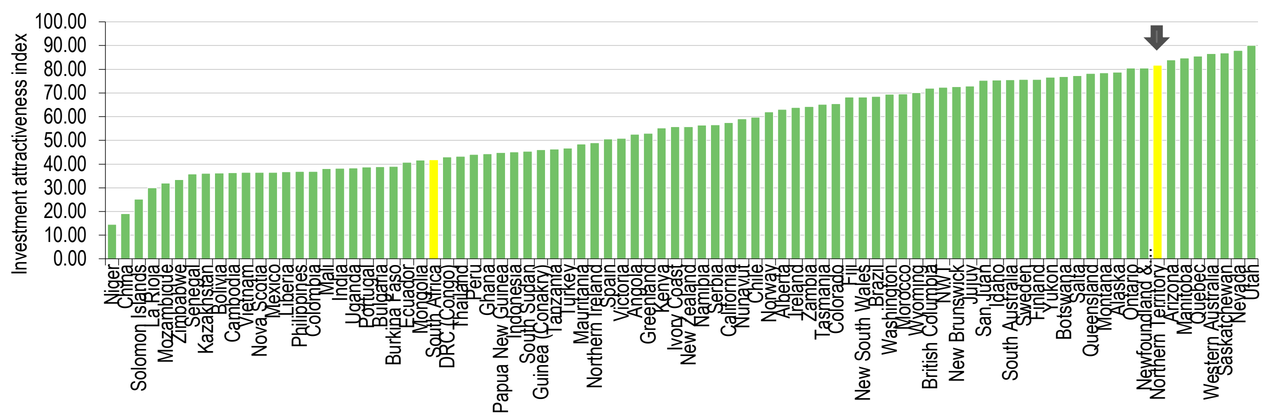
Source: Pan African Resources, Edison Investment Research. Note: *Simple average. **Edison presumption.

In general, it may be observed that there is a close reconciliation between Edison's financial model and the outputs of TCMG's feasibility study where the same inputs are used – albeit Edison's NPV and IRR appear slightly conservative at a gold price of US$2,214/oz and slightly optimistic at a price of US$2,600/oz. Even at Edison's lower gold prices, however, it is worth noting that both Nobles pre-tax IRR and its post-tax IRR exceed Pan African's minimum 20% per annum hurdle rate.

A note on discount rates

In its financial assessment of the Nobles project, Pan African/TCMG applied a 15% discount rate to cash flows. This is conservative within the context of the fact that approximately half of all studies on mining projects use a discount rate of 8% (see our sector report, *Gold stars and black holes*, published in January 2019) and about a quarter of all studies are conducted at a discount rate of 5%. It is also conservative within the context of the fact that Pan African has applied a rate of 12.5% for some of its South African assets in the past and the fact that Nobles is located in Australia's Northern Territory, which is, according to Canada's Fraser Institute, one of the 10 most attractive jurisdictions for mining investment in the world and notably more attractive than South Africa:

Exhibit 4: Fraser Institute index of mining investment attractiveness 2023 (Northern Territory and South Africa highlighted)



Source: Fraser Institute

In part, the 15% discount rate reflects the stage of development of the project – being in construction, rather than production.

Nobles valuation considerations

Un-risked project valuation

TCMG's feasibility study calculated a pre-tax IRR on the Nobles project of 108.2% and a post-tax $NPV_{15\%}$ of US$79.3m. With an effective 1,915.6m Pan African shares in issue pre-transaction, this post-tax NPV_{15} equates to 4.1 US cents per share, or 3.3p/share.

Project valuation risked for two factors

Risk associated with the Nobles project may be assumed to comprise sovereign risk, execution risk, geological risk, metallurgical risk, engineering risk, management risk and an overall risk of 'commerciality'. Three of these risks – sovereign risk, execution risk (in the form of 'stage of development' risk) and overall 'commerciality risk' – may immediately be adjusted for.

Sovereign risk

In our report Gold stars and black holes, we calculated that companies with completed bankable feasibility studies commanded valuations between -10.1% and 133.5% of attributable project NPV, with an average of 30.9% (see Exhibit 166 on page 82 of the report).

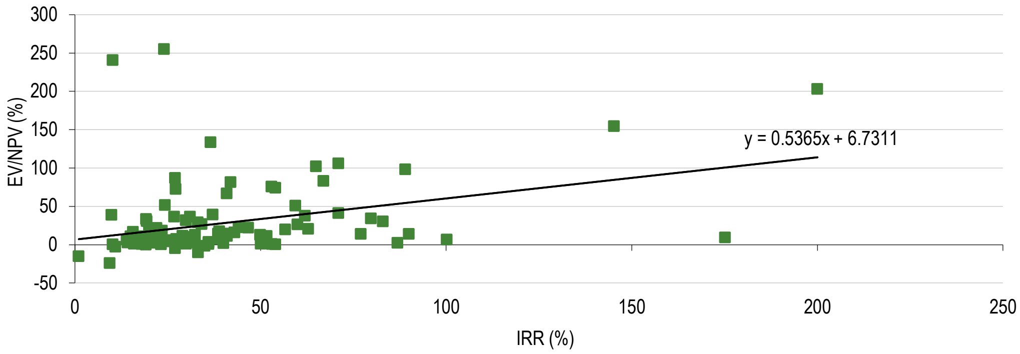
The mean Fraser Institute investment attractiveness score for all jurisdictions is 56.56, which is between the scores for Serbia and California in Exhibit 4. If this is deemed to attract an average valuation of 30.9% of attributable NPV, and the top and bottom halves of the sample are presumed to attract valuations with respect to the average and pro rata to their scores, then a company with an average project in the Northern Territory may be expected to attract a valuation of 108.1% of attributable project NPV. For Nobles, this would imply a valuation/consideration of US$85.7m, or 4.5 US cents (3.5p) per share. In paying an aggregate US$54.2m for the company in shares therefore, Pan African may be regarded as having paid a 36.9% discount to 'fair value' (all other things being equal). In addition to being in a Tier 1 mining jurisdiction, however, the risk associated with Pan African's acquisition of TCMG may also be considered to be mitigated by:

- The fact that development capital is fully funded.
- The processing facility is more than 55% complete. As of September 2024, the plant in Cloncurry has been fully dismantled and all equipment transported to the Nobles plant site, with both commissioning and first gold anticipated within the next 12 months.
- Pre-production capex is relatively modest, equating to just US$460 per average annual ounce of production over the five-year life of the operation, or US$42.50 per annual tonne of throughput capacity, or US$86.47 per reserve ounce.
- Production in the first three years of operation will be derived from already mined stockpiles and tailings storage facilities at an AISC of US$1,300/oz.
- Even on Edison's noticeably more conservative gold price assumptions, the IRR of the project exceeds Pan African's hurdle rate of 20% (see Exhibits 2 and 3).

Project valuation risked for overall commerciality

In addition, in Gold stars and black holes, we calculated a statistically significant relationship between the valuation of a company and its IRR, which is demonstrated in the graph below.

Exhibit 5: Company enterprise value as percent of attributable project NPV (%) versus project IRR (%)



Source: Edison Investment Research

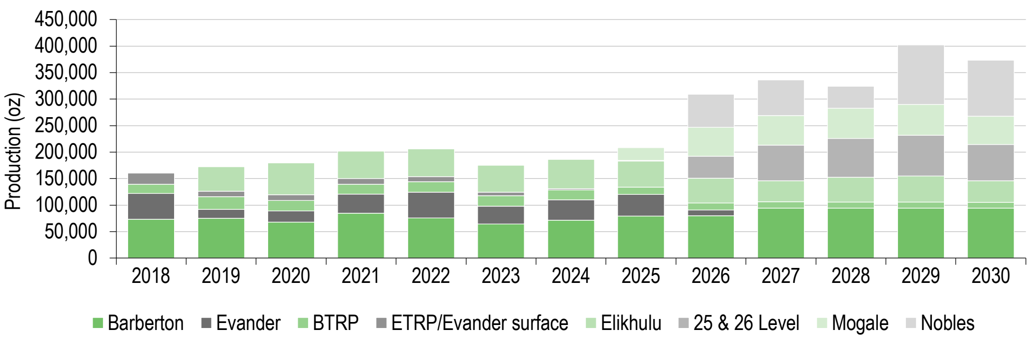
On the basis of the project's scoping study pre-tax IRR of 108.2%, therefore, the Nobles project could be expected to command a valuation equivalent to 64.7% of its NPV, or US$51.3m (ie almost exactly what Pan African paid for it).

Alternatively, if a multiple regression analysis between IRR and Fraser Institute investment attractiveness scores and a company's enterprise value/NPV ratio is performed and the resulting equation applied to Nobles, a 70.7% enterprise value/NPV ratio is predicted, which implies a valuation of US$56.1m.

Group production

In the light of these developments, we are now forecasting that group production will easily exceed 250koz per year in FY26 and approach 400koz pa in FY29, when all of PAF's mines are operating at close to capacity, pushing normalised headline EPS (HEPS) as high as 9c per share (see Exhibit 7).

Exhibit 6: Estimated Pan African group gold production profile, FY18–30e



Source: Edison Investment Research, Pan African Resources

Blue sky

The fact that its plant will be the largest ever to operate in the region will generate economies of scale for the project. It may also hold out the opportunity for alternative business strategies, such as toll treating third-party ore. Alternative opportunities to expand and extend production exist in an additional three years beyond FY30 of production potential that is still in the permitting process. Otherwise, blue sky exploration potential is provided by:

- Access to an attractive asset portfolio in one of Australia's highest-grade mineral fields.
  - A known geological endowment through historic gold production and current mineral resources of 8Moz Au and c 1.2Mt Cu

   - Walk-up brownfields and development drill targets at TCMG's 100%-owned Warrego, Nobles and Juno assets.
- A region under-explored, with less than 8% of holes drilled below a depth of 150m.
- A significant land position, as TCMG controls 1,700km^2 through 100%-owned assets as well as through the Emmerson Resources Limited Joint Venture (ERM-JV), utilising a hub and spoke growth strategy to process multiple deposits
- Potential to significantly expand the mineral resource and mineral reserve base as well as the project life of mine beyond 15 years via a two-staged gold and copper strategy, underpinned by an exploration target with up to an additional 800koz of gold alone.

In the meantime, a prefeasibility study (PFS) on the Warrego copper and gold deposit is scheduled to be completed during Q225, the results of which will dictate the project's path to development and a possible execution strategy.

Updated (absolute) valuation

Accounting considerations

The value of the net assets of TCMG as at 30 June 2023 were reported to be A$44.8m, equating to US$29.9m at the then prevailing forex rate and to US$27.5m for the 92% of TCMG for which PAF is paying US$50.8m. As such, we have assumed US$23.3m in goodwill associated with the acquisition and we have consolidated this into Pan African's balance sheet alongside TCMG's net assets (assuming negligible cash) as at 30 June 2024, which we have therefore made the effective date of the acquisition. Simultaneously, we have reallocated PAF's original 8% investment in TCMG, valued at US$3.4m, into both assets and goodwill pro-rata. Hence the balance sheet shown in Exhibit 14 is effectively a pro forma balance sheet, including the enlarged share capital of the company, although the cash flow and income statements remain unchanged. Thereafter, we have fully consolidated TCMG's income, cost, depreciation, tax and capex contributions into the group accounts.

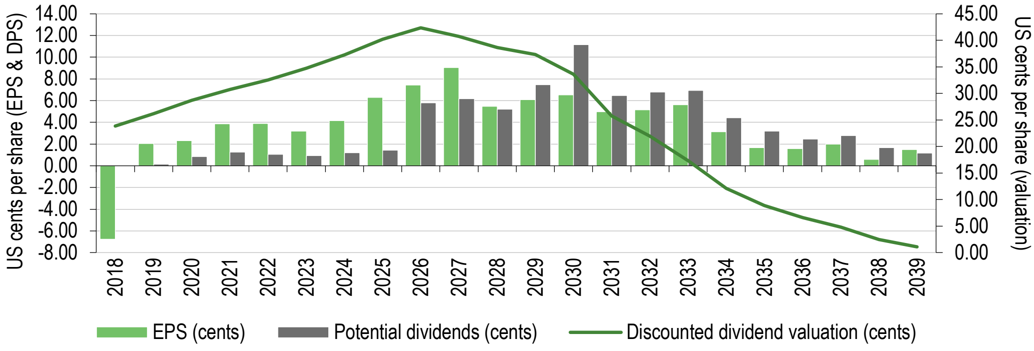
However, we have not yet included any additional hedging into our forecasts. Pan African has stated that it has approved lines in place to hedge approximately 75% of the TCMG production for the first two years of operation in order to secure the return on its initial investment. Indicative pricing at a spot gold price of A$3,947/oz (US$2,644/oz at US$0.67/A$) for a zero-cost collar structure is a floor price of A$3,600/oz (US$2,412/oz) and a cap price of A$4,800/oz (US$3,216/oz). However, we will only model these into PAF's accounts once the contracts are actually in place.

Valuation

Otherwise, in addition to including Pan African's acquisition of TCMG in our future forecasts and estimates, we have also adjusted our long-term foreign exchange rates (in real terms), to reflect the continued recent 'above trend' strength of the rand even against a rampant US dollar in the wake of Donald Trump's victory in the US presidential election and the concomitant relative weakness of sterling.

In the aftermath of these changes, our absolute valuation of PAF (based on its existing four producing assets plus the 25 and 26 Level project, Mogale and now Nobles) has risen by 1.28c to 42.21c (cf 40.93c previously), which is based on the present value of the estimated potential dividend stream payable to shareholders over the life of its mining operations (applying a 10% discount rate to US dollar dividends).

Exhibit 7: PAF estimated life of operations diluted EPS and (maximum potential*) DPS



Source: Pan African Resources, Edison Investment Research. Note: *From FY29. Excludes discretionary exploration investment.

However, readers should note that this valuation is conducted at Edison's relatively conservative gold price assumptions of US$2,124/oz (nominal) average for the period CY25–30. At the current gold price, all other things being equal, our valuation almost doubles to 83.52c (65.92p).

Even so, including its other growth projects and assets, our updated total valuation of PAF as a whole rises to 64.63–69.65c (51.01–54.98p).

Exhibit 8: PAF group absolute valuation summary

Project	Current valuation (USc/share)
Existing producing assets*	41.01
Cum-FY24 dividend	1.20
Royal Sheba**	1.26
Other**	2.04
Sub-total	**45.50**
EGM underground resource	0.22–5.24
Sub-total	**45.72–50.74**
Egoli	16.92
Soweto cluster	1.99
Total	**64.63–69.65**

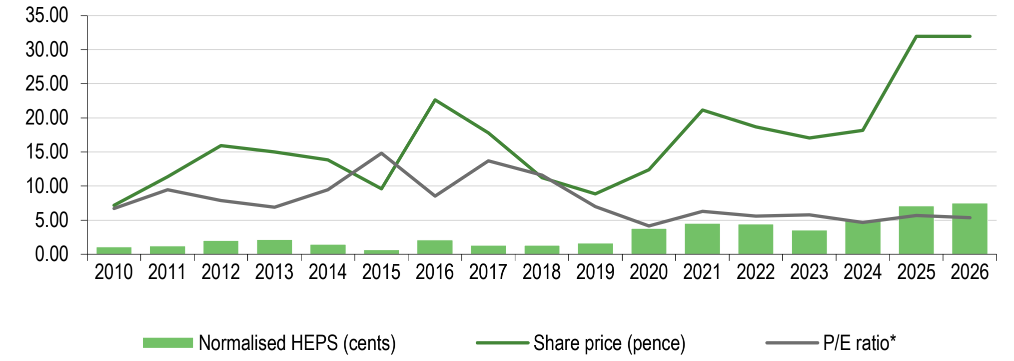
Source: Edison Investment Research. Note: *Including 24 Level and 25 & 26 Level, Mogale and Nobles projects. **Resource based valuations. Numbers may not add up owing to rounding.

Historical relative and current peer group valuation

Historical relative valuation

Exhibit 9 below depicts PAF's average share price in each of the financial years from FY10 to FY24 and compares this with HEPS in the same year. For FY25 and FY26, the current share price (31.95p) is compared with our forecast normalised HEPS for those years. As is apparent from the chart, PAF's price to normalised HEPS ratios of 5.7x and 5.4x for FY25 and FY26, respectively, remain close to the bottom of its recent historical range of 4.1–14.8x for the period FY10–24 and consistent with its range of 4.1–7.0x for the period FY19–24:

Exhibit 9: PAF historical price to normalised HEPS ratio, FY10–26e**



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.

If PAF's average year one price to normalised EPS ratio of 8.2x for the period FY10–24 is applied to our normalised earnings forecasts, it implies a share price for PAF of 45.71p in FY25 followed by one of 48.44p in FY26. Stated alternatively, PAF's current share price of 31.95p, at prevailing foreign exchange rates, appears to be discounting FY25 and/or FY26 normalised HEPS of 4.95c per share (cf our forecasts of 7.09c and 7.51c, respectively).

Relative peer group valuation

In the meantime, it may be seen that PAF remains cheap relative to its London- and South African-listed gold mining peers on 83% of comparable common valuation measures (29 out of 36 individual measures in the table below) if Edison forecasts are used or 91% of valuation measures (32 out of 36 individual measures) if consensus forecasts are used.

Exhibit 10: Comparative valuation of PAF with South African and London peers

Company	EV/EBITDA (x)		P/E (x)		Yield (%)	
	Year 1	Year 2	Year 1	Year 2	Year 1	Year 2
AngloGold Ashanti	4.4	3.8	10.4	8.8	2.1	1.9
Gold Fields	5.0	3.5	10.4	6.3	3.6	5.5
Sibanye Stillwater	4.5	3.1	66.5	5.8	3.3	5.5
Harmony	3.9	3.8	6.9	7.2	2.2	2.7
Centamin	3.2	2.5	8.0	7.1	2.6	4.5
Endeavour Mining (consensus)	8.3	7.9	16.6	15.0	4.6	5.0
Average (excluding PAF)	**4.9**	**4.1**	**19.8**	**8.4**	**3.1**	**4.2**
PAF (Edison)	4.0	3.4	5.7	5.4	3.5	14.3
PAF (consensus)	3.6	2.9	5.4	3.8	4.5	8.1

Source: Edison Investment Research, LSEG Data & Analytics. Note: Consensus and peers priced at 14 November 2024.

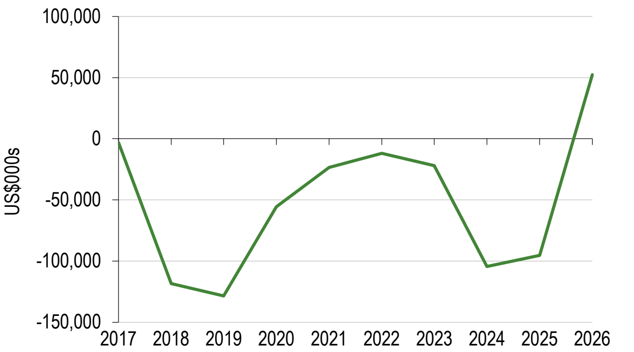
Alternatively, applying PAF's peer average year one P/E ratio of 19.8x to our normalised HEPS forecast of 7.09c per share for FY25 implies a share price for the company of 110.70p at prevailing foreign exchange rates – albeit this calculates to 58.47p if Sibanye is excluded from the peer group. Applying its peer average year two P/E ratio of 8.4x to our normalised HEPS forecast of 7.51c per share for FY26 implies a share price of 49.52p.

Financials

Pan African reported net debt of US$104.4m on its balance sheet as at end-June 2024 (cf US$61.7m as at end-December 2023 and US$22.1m as at end-June 2023), which equated to a gearing ratio (net debt/equity) of 28.6% (cf 18.8% at end-December 2023 and 7.5% at end-June 2023) and a leverage ratio (net debt/[net debt+equity]) of just 22.2% (cf 15.8% at end-December

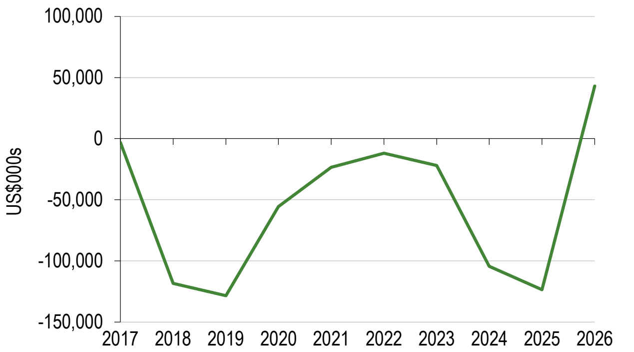
2023 and 7.0% at end-June 2023), after cash flow from operating activities of US$109.1m before dividends (cf US$45.5m in H124, US$88.5m in H223 and US$31.6m in H123). Capex guidance for FY25 is ZAR2.27bn (c US$124.1m at prevailing foreign exchange rates). Beyond that, we forecast that PAF will continue to generate cash from operations comfortably above the US$100m pa level (and potentially around the US$200m pa level) into the foreseeable future, albeit we calculate that net debt will now peak in FY25 after the TCMG acquisition (cf H125 previously), before being eliminated late in FY26, by which time we assume that capex will once again have returned to near-sustaining levels.

Exhibit 12: Pan African previous estimated net debt* profile forecast, FY17–26e (annually)



Source: Edison Investment Research, Pan African Resources

Exhibit 13: Pan African current estimated net debt* profile forecast, FY17–26e (annually)



Source: Edison Investment Research, Pan African Resources

Even so, we calculate that Pan African's maximum net debt requirement in FY25 of US$125.8m will equate to no more than 24.4% gearing (defined as net debt/equity) or 19.6% leverage (defined as net debt/[net debt+equity]). Owing to the passage of time and the building up of equity in the form of retained income, however, this is a much lower debt burden on the company than the equivalent time when net debt was similarly high in FY19, at US$128.4m, when gearing amounted to 70.0% and leverage amounted to 41.2%.

Exhibit 14: Financial summary

US$'000s	2022	2023	2024	2025e	2026e
Year end 30 June	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS					
Revenue	376,371	321,606	373,796	459,333	597,749
Cost of sales	(226,445)	(198,790)	(221,183)	(216,483)	(316,974)
Gross profit	149,926	122,816	152,613	242,850	280,775
EBITDA	147,830	121,853	150,926	237,959	276,763
Operating profit (before amort. and excepts.)	121,402	101,454	129,682	199,902	218,415
Intangible amortisation	0	0	0	0	0
Exceptionals	(10,295)	(7,347)	(10,375)	(16,257)	(1,586)
Other	0	0	0	0	0
Operating profit	111,107	94,107	119,307	183,645	216,829
Net interest	(4,231)	(8,553)	(9,900)	(9,396)	(11,319)
Profit Before Tax (norm)	117,171	92,901	119,782	190,506	207,096
Profit before tax (FRS 3)	106,876	85,554	109,407	174,248	205,510
Tax	(31,924)	(24,817)	(30,581)	(45,769)	(53,706)
Profit after tax (norm)	85,247	68,084	89,201	144,736	153,390
Profit after tax (FRS 3)	74,952	60,737	78,826	128,479	151,804
Average Number of Shares Outstanding (m)	1,926.1	1,916.5	1,916.5	2,041.9	2,041.9
EPS - normalised (c)	4.44	3.54	4.68	7.09	7.51
EPS - FRS 3 (c)	3.90	3.19	4.14	6.29	7.43
Dividend per share (c)	1.04	0.95	1.20	1.42	5.81
Gross margin (%)	39.8	38.2	40.8	52.9	47.0
EBITDA margin (%)	39.3	37.9	40.4	51.8	46.3
Operating margin (before GW and except.) (%)	32.3	31.5	34.7	43.5	36.5
BALANCE SHEET					
Fixed assets	401,139	439,676	676,478	796,756	782,351
Intangible assets	44,210	44,429	43,994	46,215	48,415
Tangible assets	355,802	395,247	632,484	750,541	733,936
Investments	1,127	0	0	0	0
Current assets	55,953	61,263	57,938	48,066	76,532
Stocks	9,977	9,567	16,431	15,322	19,935
Debtors	17,546	15,182	15,175	32,743	42,601
Cash	26,993	34,771	26,332	0	13,995
Current liabilities	(58,989)	(77,386)	(84,864)	(126,549)	(229,549)
Creditors	(57,117)	(65,884)	(79,344)	(94,050)	(224,029)
Short-term borrowings	(1,872)	(11,502)	(5,520)	(32,498)	(5,520)
Long-term liabilities	(103,494)	(128,957)	(237,104)	(206,380)	(84,187)
Long-term borrowings	(37,088)	(45,334)	(125,214)	(93,271)	29,881
Other long-term liabilities	(66,406)	(83,623)	(111,890)	(113,108)	(114,069)
Net assets	294,609	294,596	412,448	511,893	545,146
CASH FLOW					
Operating Cash Flow	142,879	132,941	134,310	174,875	281,080
Net Interest	(2,794)	(5,121)	(9,731)	(9,396)	(11,319)
Tax	(8,520)	(7,722)	(15,476)	(18,078)	(32,658)
Capex	(81,951)	(109,952)	(169,521)	(158,336)	(43,943)
Acquisitions/disposals	563	(2,779)	141	0	0
Financing	(3,222)	0	0	0	0
Dividends	(21,559)	(19,975)	(18,302)	(18,302)	(29,034)
Net cash flow	25,396	(12,608)	(78,579)	(29,237)	164,126
Opening net debt/(cash)	23,553	11,967	22,065	104,402	125,770
Exchange rate movements	(4,401)	(4,481)	1,160	0	0
Other	(9,409)	6,991	(4,918)	7,870	0
Closing net debt/(cash)	11,967	22,065	104,402	125,770	(38,357)

Source: Company sources, Edison Investment Research. Note: FY24 balance sheet 'pro forma' and income statement and cash flow statement 'as reported'. FY23 'as reported' and not restated as per FY24 results (NB restatement deemed immaterial by Edison).

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