

Pan African Resources plc

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Pan African Resources flagship asset is 'gift that keeps on giving', says CEO

Barberton Mines - the flagship asset of Pan African Resources plc (LON:PAF) - is the gift that keeps on giving, according to chief executive Cobus Loots.

The South African underground gold project, which includes the Fairview, New Consort and Royal Sheba mines, has been operating for more than 130 years, produces at an exceptionally low cost and output is expected to reach 100,000 ounces in fiscal year 2019.

"It's one of the oldest operating mines in the world... and in a way it's the gift that keeps on giving," Loots said in an interview with Proactive Investors.

In the most recent positive development at Barberton, the company more than doubled its mineral resource estimate at Sheba after results from the latest round of drilling beat expectations.

READ: Pan African Resources more than doubles mineral resource estimate at Sheba after latest round of drilling
The mining group said in an early September update that it thinks the orebody is host to 0.9mln ounces of gold - a 150% increase on its previous estimate of 0.36mln ounces.

Drilling has suggested that around 0.35mln ounces of the precious metal are near to the surface and are conducive to open pit mining.

Open pit mining is generally a cheaper and easier process than underground mining, albeit with slightly lower grades. That isn't the case at Sheba though, with the results suggesting the near-surface resource is of a slightly higher grade than that of the underground resource.

Overall, Pan African estimates the grade at Sheba to be 3.27 grams per tonne.

Based on the estimates, Loots said he believes Sheba will be a "very welcome and attractive addition" to the miner's portfolio.

He said the opencast orebody has the potential to increase production from the Barberton operations at a competitive cost.

Sheba definitive feasibility study eyed

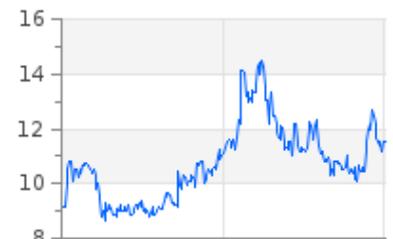
An in-fill drilling programme of 20 holes is nearing completion at Sheba. Pan African expects to update the market with a further mineral resource estimate in November followed by a definitive feasibility study (DFS) in February 2019.

Following the DFS, Loots said he expects to have an implementation plan for the project early in the new year

Price: 11.5

Market Cap: £221.76 m

1 Year Share Price Graph



January 2019 July 2019 January 2020

Share Information

Code: PAF

Listing: AIM

52 week High Low
14.7037 8.5

Sector: Gold & silver

Website: www.panafricanresources.com

Company Synopsis:

Pan African Resources is a mid-tier African-focused gold producer with a production capacity in excess of 170,000oz of gold per annum. The Company's strategic focus is on the exploitation of high-grade ore bodies that yield high margins with a relatively low cost base. Pan African Resources has successfully grown profitable gold production in recent years via organic and acquisitive growth.

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He is also upbeat about other deposits within the Barberton mining right and operations at Evander Gold Mines in South Africa, where the Elikhulu tailing retreatment project poured its first gold recently.

Elikhulu set to ramp up after first gold poured

Pan African has said it expects to complete the commissioning phase of Elikhulu by the end of September and reach the steady stage of production in October.

Elikhulu, which was constructed ahead of schedule and within budget, is projected to achieve an initial production of 55,000 ounces of gold per annum at an all-in sustaining cost of between US\$650/oz and 700/oz.

READ: Pan African Resources announces first gold pour at Elikhulu

"It's another low cost, long life project that is being brought on ahead of schedule and on budget by Pan African," Loots said.

Loots said once the company integrates the Evander Tailings Retreatment Plant, which comes on stream in December, production is forecast to rise to 70,000oz.

Over the life of the project, Elikhulu is expected to produce 674,000oz of gold, with a value of about 11.5bn Rand (£622mln) at a gold price of 550,000 Rand/kg (£29,800/kg).

Numis recommends 'buy' rating for Pan African

Analysts at Numis repeated a 'buy' rating on Pan African following July's announcement of pouring first gold at Elikhulu.

"This is a good result for PAF, which should also benefit from the recent weakening of the ZAR vs the USD that should offset some of the impact of the weaker gold price," the analysts said.

They added: "PAF has faced challenges with the Evander underground mine, which has now been closed, and the start of production at Elikhulu marks a key point in the transition to a lower risk, lower cost business model."

The analysts noted that given Pan African's 2019 guidance for total production of 170,000 ounces, they expect group cash costs to decline to US\$657 per ounce from the US\$1,045 per ounce reported in 2018 as Elikhulu ramps up.

Numis said the next major catalyst for the shares will be the publication of the DFS for Sheba.

Weaker Rand provides support

The broker also pointed out that a weaker South African Rand (ZAR) provides support for the group, with the currency having back pulled back from a year-to-date high of R11.55 per US dollar to R14.43

"In ZAR terms, the gold price has increased from R16,000/oz (R514,000/kg) at the beginning of August to R17,025/oz (R547,000/kg) at present, as the weakening of the ZAR has outweighed the pullback in the USD gold price over the same period.

"Over the short term, this should be supportive for PAF, which has ZAR denominated costs, although over the longer term the benefit should be tempered by higher inflation in South Africa."

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