proactive

UK: +44 (0)207 989 0813
NA: +1 646 896 3065
AU +61 2 9280 0700
action@proactiveinvestors.com

# Pan African Resources plc

12:45 26 Sep 2018

## Pan African Resources looks all set to return to profitability in 2019

A company that was created from scratch to become a substantial employer with a market capitalisation of £200mln in little more than a decade is always worthy of note.

In the case of Pan African Resources PLC (LON:PAF), that market capitalisation also allows for a significant period of underperformance from the company's South African gold mines that's only now coming to an end. As the recovery gets underway, the valuation could return to previous heights.

READ: Pan African Resources says three-year wage agreement successfully concluded with unions by Barberton Mines
Go back just a little more than two years and the company's shares were almost three times higher than where they are today.

A trend of positive newsflow has already begun. The most recent success has been the negotiation of a wage settlement for the company's sizeable workforce. Labour relations in the mining industry in South Africa can be a contentious affair, but Pan African's chief executive Coobus Loots is a tough operator himself and takes a fairly no-nonsense approach.

He also brings a past history as a senior figure on the board of Pan African's black empowerment partner, so is capable of bringing several viewpoints into the negotiations.

"We reached a wage agreement two weeks ago," he says. "We've agreed a 6% compound annual increase. It's a fair agreement for all stakeholders."

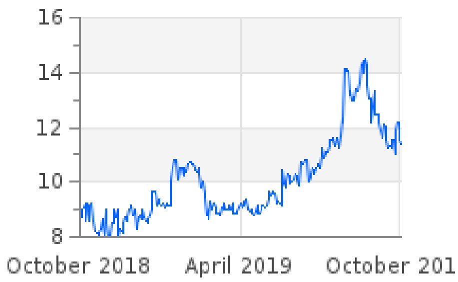
The news follows on from the closing down of a tough-to-manage deep underground mine, Evander.

This mine was plagued by an inconsistent and hard to model orebody almost from the time it was acquired from Harmony back in 2012. It enjoyed good years, as Loots points out, citing 2016 specifically, but on the whole, it was not an asset that was working well for the company.

**Price:** 11.2

**Market Cap:** £215.97 m

**1 Year Share Price Graph**




### Share Information

| | | |
|---|---|---|
| **Code:** | | PAF |
| **Listing:** | | AIM |
| **52 week** | **High** | **Low** |
| | **14.7037** | **7.9468** |
| **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.*

**action@proactiveinvestors.com**

"It became quite clear it was not sustainable and was tarnishing our other operations," says Loots. The share price suffered on the back of the decision to close down operations, but now that the impairment charges have all been booked, Pan African is all set to move on to a simpler and more prosperous future.

That, says Loots, will be centred on "long life, low cost sustainable assets."

These comprise one long-standing underground operation at Barberton, and as well as three operations that recover gold from previously mined waste ore known as tailings.

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

Put together, Broker Numis expects these operations to allow Pan African to return to free cash flow during the 2018/2019 financial year. Total production is likely to hit around 170,000 ounces of gold, as a new operation at Elikhulu ramps up.

As a consequence, Numis sets a target price of 16p, more than 80% higher than the prevailing 8.6p. So there's serious upside on offer.

Of course, there are risks with such a recovery play.

But one that can be dispensed with immediately is the risk that any underperforming asset continues to hold back wider improvement. In Pan African's case, the underperforming asset has been dispensed with entirely, and the company is turning over a new leaf.

With that new leaf, come the newer and simpler operations.

Production at the new Elikhulu project continues to ramp up, with steady state production targets on track to be met next month. The dependable Barberton mine, one of South Africa's oldest, is all set to yield 26,000 ounces of gold in the first quarter of the current financial year, and continues to underpin the overall performance of the company.

And with the gold price holding steady at around US$1,200, with the rand weak and the dollar strong, the macro picture is moving in Pan African's favour too.

READ: Numis Securities repeats 'buy' on Pan African Resources after Elikhulu tailings plant news
Numis expects revenues of US$157mln for 2019, rising to US$184mln in 2020. That in turn, will translate into net profits of US$32mln in 2019 and US$55mln in 2020.

It's expected too that the dividend, which was cancelled following the troubles at Evander, will be reinstated in 2019 at 0.5p per share, and that it will then rise to 0.9p per share in 2020.

That puts Pan African on a healthy enough yield of just over 5.5% for the current year and more than 10% for 2020.

And it's more than arguable that a 10% yield from a company with a track record of production that goes back more than a decade, and which is well ensconced in its country of operations, is attractive.

The question remains whether cautious investors will leave the shares where they are and pocket the reinstated dividend as it rolls in, or whether more bullish punters will move in and re-rate the shares, such that the yield falls but existing shareholders end up sitting on sizeable gains.

On that scenario, Numis's 16p target looks eminently within reach.

You understand that the Site may contain opinions from time to time with regard to securities mentioned in other products, including Company-related products, and that those opinions may be different from those obtained by using another product related to the Company. You understand and agree that contributors may write about securities in which they or their firms have a position, and that they may trade such securities for their own account. In cases where the position is held at the time of publication and such position is known to the Company, appropriate disclosure is made. However, you understand and agree that at the time of any transaction that you make, one or more contributors may have a position in the securities written about. You understand that price and other data is supplied by sources believed to be reliable, that the calculations herein are made using such data, and that neither such data nor such calculations are guaranteed by these sources, the Company, the information providers or any other person or entity, and may not be complete or accurate.

From time to time, reference may be made in our marketing materials to prior articles and opinions we have published. These references may be selective, may reference only a portion of an article or recommendation, and are likely not to be current. As markets change continuously, previously published information and data may not be current and should not be relied upon.

The Site does not, and is not intended to, provide investment, tax, accounting, legal or insurance advice, and is not and should not be construed as providing any of the foregoing. You should consult an attorney or other relevant professional regarding your specific legal, tax, investment or other needs as tailored to your specific situation.

In exchange for publishing services rendered by the Company on behalf of Pan African Resources plc named herein, including the promotion by the Company of Pan African Resources plc in any Content on the Site, the Company receives from said issuer annual aggregate cash compensation in the amount up to Twenty Five Thousand dollars ($25,000).