

Pan African Resources plc

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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 £200m 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.

"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

Price: 11.2

Market Cap: £215.97 m

1 Year Share Price Graph



October 2018 April 2019 October 2019

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.

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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\$157m for 2019, rising to US\$184m in 2020. That in turn, will translate into net profits of US\$32m in 2019 and US\$55m 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.

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