Research

ARGONAUT

Panoramic
BUY

8 July 2008

Current Price: **$3.38**
Valuation: **$5.38**

Ticker:	**PAN**
Sector:	**Metals & Mining**

Shares on Issue (m):	**191.9**
Market Cap ($m):	**648.5**
Net Cash ($m):	**105.0**
Enterprise Value ($m):	**543.4**

52 wk High/Low:	**$6.21**	**$2.85**
12m Av Daily Vol:		**1,330,000**

Key Metrics

	08F	09F	10F
P/E (x)	10.1	5.7	6.2

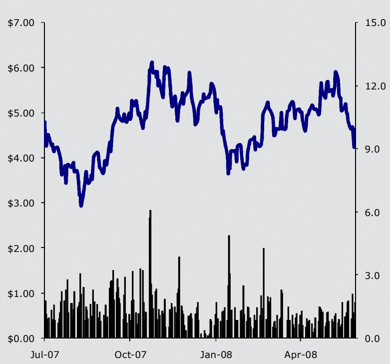
Financials:

	08F	09F	10F
Revenue ($m)	291.8	386.6	352.0
EBIT ($m)	89.2	165.5	150.9
NPAT ($m)	64.8	115.6	105.4
Net Assets ($m)	157.2	234.5	305.4
Op CF ($m)	66.1	163.9	128.2

Per Share Data:

	08F	09F	10F
EPS (cps)	33.5	59.7	54.4
DPS (cps)	16.0	20.0	18.0
Div Yield	4.7%	5.9%	5.3%
CFPS (cps)	34.1	84.6	66.2

Share Price Graph



Analyst:
Troy Irvin

Oil painting of the nickels

In just over six weeks nickel sulphide miner Panoramic (PAN) has dropped more than 40% despite a fall in the nickel price of just over 20%.

Given the pretty picture PAN is poised to paint in the near term the market treatment has been harsh:

- September – Deacon extensional drilling, first ore mined at Copernicus
- October - First ore treated at Copernicus
- End of year – Significant Savannah resource upgrade

Note that the addition of Copernicus mill feed is expected to reduce fixed costs at Savannah by around 15%. And recent high grade drill hits inside the 500 Fault at the Savannah Deeps have been a big bonus (previously believed to be barren).

PAN remains one of Argonaut's preferred nickel stocks. Despite offering current free cash flow generation of $5-$10m per month and a tangible production growth profile to 20ktpa the company has a modest EV of less than $550m.

At current pricing PAN is an oil painting compared to most nickel peers. The market is awarding PAN:

- Similar value to Albidon (ALB) - lower grade, still ramping-up, with Zambian risk
- Around half the value of Minara (MRE) – nickel laterite, under pressure from soaring sulphur prices (leapt from US$50/t to US$850/t over a 12 month period) and gas prices (current spot >$30/GJ during the Varanus Island incident)
- Just over one third the value of Western Areas (WSA) – high grade but unproven in the production arena

This is nonsense.

Soaring sulphur and gas prices will also negatively impact other nickel laterite projects including BHP's newly commissioned Ravensthorpe mine. Nickel sulphide miners remain relatively unaffected.

PAN is cheap on all valuation metrics:

- P/NAV 0.6x
- FY09 PE 5.6x
- EV/Ni reserve t $5,200
- EV/Ni resource t $4,000

BUY

ARGONAUT

Panoramic Resources Ltd

Equities Research

Analyst: Troy Irvin
(08) 9224 6871

Recommendation	**BUY**	**Sector**	**Metals & Mining**
Current Price	**$3.38**	**Issued Capital (m)**	**191.9**
Valuation	**$5.38**	**Market Cap (m)**	**$648.5**
All Ords (XAO)	**5,091**	**Date**	**08-July-2008**

Profit & Loss ($m) 30 June	2007A	1H/08A	2008E	2009E	2010E
Sales Revenue	**302.3**	**135.9**	**291.8**	**386.6**	**352.0**
Other Income	3.0	3.5	5.2	8.2	13.2
Operating Costs	93.5	51.1	118.2	158.8	169.0
Depn & Amort	41.9	16.8	39.0	53.4	27.9
Exploration Exp.	2.1	0.4	4.6	5.0	5.1
Corporate/Admin	6.0	4.0	10.0	12.1	12.3
Derivatives Loss	34.2	35.9	35.9	0.0	0.0
EBIT	**127.6**	**31.1**	**89.2**	**165.5**	**150.9**
Interest Paid	3.1	-2.7	-2.4	0.3	0.3
Operating Profit	**124.5**	**33.8**	**91.6**	**165.2**	**150.6**
Tax expense	36.5	9.4	26.7	49.6	45.2
Minorities	0.0	0.0	0.0	0.0	0.0
NPAT	**88.1**	**24.4**	**64.8**	**115.6**	**105.4**
Normalised NPAT	**88.1**	**24.4**	**64.8**	**115.6**	**105.4**

Financial Summary	2007A	2008E	2009E	2010E
Reported Earnings				
Net Profit ($m)	88.1	64.8	115.6	105.4
EPS (cents)	45.3	33.5	59.7	54.4
PER (x)	7.5	10.1	5.7	6.2
Normalised Earnings				
Net Profit ($m)	88.1	64.8	115.6	105.4
EPS (cents)	45.3	33.5	59.7	54.4
EPS Growth (%)	392.2	(26.0)	78.3	(8.8)
PER (x)	7.5	10.1	5.7	6.2
Cashflow				
Operating Cashflow ($m)	203.2	66.1	163.9	128.2
GCFPS (cents)	104.5	34.1	84.6	66.2
PCF (x)	3.2	9.9	4.0	5.1
Dividend				
Dividend (cents)	12.0	16.0	20.0	18.0
Yield (%)	3.6	4.7	5.9	5.3
Franking (%)	100	100	100	100

Cash Flow ($m)	2007A	1H/08A	2008E	2009E	2010E
Operating Cashflow	**203.2**	**5.2**	**66.1**	**163.9**	**128.2**
- Capital Expenditure	31.8	30.0	60.7	18.8	9.8
- Exploration & Evaluation	6.9	2.5	8.5	10.1	10.3
- Asset Purchases (+ Asset Sales)	(1.1)	1.0	1.0	0.0	0.0
Free Cashflow	**165.6**	**(28.2)**	**(4.1)**	**135.1**	**108.1**
- Dividends (ords & pref)	0.0	22.8	39.8	32.5	36.5
+ Equity Raised	4.0	1.6	1.6	0.0	0.0
+ Debt Drawdown (Repaid)	(36.7)	(4.0)	(12.1)	0.0	0.0
- Settlement of call option fees	44.0	0.0	(44.0)	0.0	0.0
Net Change in Cash	**88.9**	**(53.4)**	**(10.4)**	**102.5**	**71.7**
Cash at end period	119.6	66.2	109.2	211.8	283.5

Financial Ratios	2007A	2008E	2009E	2010E
Balance Sheet Ratios				
Total Debt / Equity (%)	11	3	2	1
Interest Cover (x)	41.7	-37.8	625.9	570.8
Acid test ratio (x)	1.2	1.1	1.5	1.9
Profitability Ratios				
Net Profit Margin (%)	29.1	22.2	29.9	30.0
Return on Assets (%)	77.8	36.3	65.1	60.8
Return on Equity (%)	72.3	41.3	49.3	34.5

Balance Sheet ($m)	2007A	2008E	2009E	2010E
Cash	119.6	109.2	211.8	283.5
Total Assets	283.7	355.0	465.9	531.6
Total Debt	13.1	4.2	4.2	4.2
Total Liabilities	161.8	197.8	231.4	226.2
Shareholders Funds	121.8	157.2	234.5	305.4

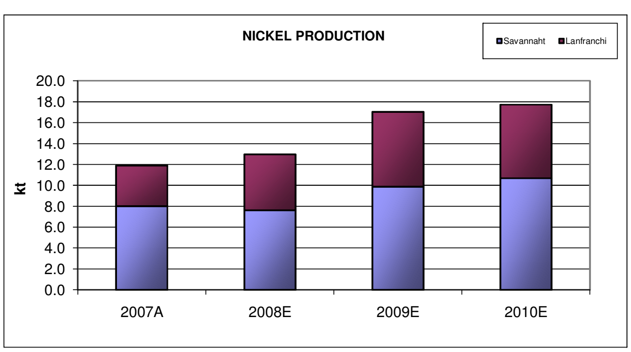
Valuation Summary	A$m	A$/sh
Savannah (including Copernicus)	380.6	1.96
Lanfranchi	501.3	2.59
Forwards	-3.0	-0.02
Corporate	-46.5	-0.24
Cash Estimate	109.2	0.56
Debt	-4.2	-0.02
Exploration	100.0	0.52
Unpaid capital	4.3	0.02
Listed Investments	1.0	0.01
Total @ 10% discount rate	**1042**	**5.38**

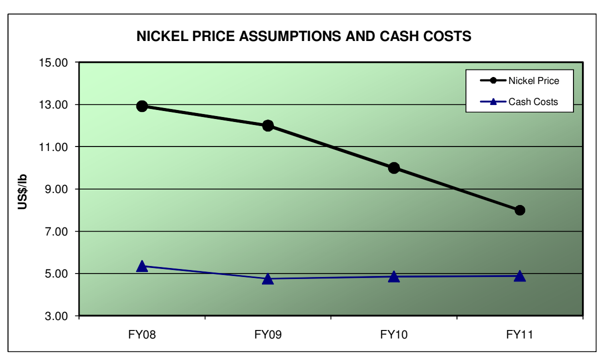
Production Summary	2007A	2008E	2009E	2010E
Savannah (kt)	8.0	7.6	9.9	10.7
Lanfranchi (kt)	3.9	5.4	7.2	7.0
Total Nickel Production	**11.9**	**13.0**	**17.0**	**17.7**
By-product Copper Production	4.0	4.4	5.4	5.7
By-product Cobalt Production	0.4	0.4	0.5	0.6
Ni Cash Cost - net of credits (US$/lb)	3.79	5.35	4.75	4.86
Ni Total Cost - net of credits (US$/lb)	6.31	8.18	7.37	6.24
Ni Price Realised (US$/lb)	13.85	12.58	11.90	10.00

Directors	
C J G de Guingand	Non-Executive Chairman
Peter Harold	Managing Director
Christopher Langdon	Non-Executive Director
John Rowe	Non-Executive Director
Brian Phillips	Non-Executive Director

Reserves & Resources Attributable to SMY				
Nickel Reserves		**mt**	**Grade (%)**	**Ni (kt)**
Sally Malay Project	June 2007	2.83	1.73	48.9
Lanfranchi - Deacon	August 2007	1.27	2.54	32.3
Lanfranchi - Winner	March 2007	0.11	4.26	4.6
Lanfranchi - Other	June 2007	0.40	2.30	9.1
Copernicus	April 2007	0.78	1.10	8.5
Total Reserves		5.39	1.92	103.4
Nickel Resources		**mt**	**Grade (%)**	**Ni (kt)**
Sally Malay Project	June 2007	2.79	1.32	36.8
Sally Malay NOZ	April 2008	0.48	1.16	5.4
Lanfranchi - Deacon	April 2007	1.43	3.04	43.5
Lanfranchi - Winner	March 2007	0.08	6.16	5.2
Lanfranchi - Other	June 2006	2.10	1.78	37.3
Copernicus	December 2007	0.51	1.24	6.3
Total Resources		7.39	1.82	134.6

Substantial Shareholders	%
HSBC Custody Nominees	23.6
ANZ Nominees	17.0
Barclays	10.5
J P Morgan Nominees	9.2
National Nominees	8.5





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