17 July 2008

Mining

BUY

Panoramic Resources Limited

FY08 NPAT guidance slightly above expectations

Hayden Bairstow
613 8660 7210
hayden.bairstow@tricom.com.au

ASX code | PAN
Last price | $2.45
Fully diluted shares | 193.7M
Market cap | A$474.6M
52 week hi/low | $6.21 / $2.43
12 month price target[1] | $4.00
Valuation | $4.00
Valuation methodology | DCF

KEY POINTS

- PAN has announced it expects profit for FY08 to come in around $60M, which is approximately 5% higher than our estimate of $57.1M.
- The solid profit result is on the back of record nickel production of 14.9kt which is up 13% on last year.
- At the end of June 2008, PAN stated that it held around $130M in cash and receivables, which is slightly higher than we had anticipated.
- The also company released production guidance of 17.0-18.0kt contained nickel for FY09 which is broadly in line with our expectations.
- The Copernicus development is underway and PAN expects to process first ore from the project at the Savannah mill in the 1QFY09.

COMMENT

The profit guidance was slightly above our forecasts and we have upgraded our FY08 NPAT estimate from $57.1M to $60.7M to match company guidance. Production in the 4QFY08 appears to be in line with our estimates, although the production contributions and cost estimates from Savannah and Lanfranchi will not be known until PAN releases it is 4QFY08 production report later this month.

Exploration remains a key focus for PAN with activity in FY09 expected to focus on testing below the 500 fault and the Northern Ore Zone at Savannah, down plunge testing of the Deacon, Helmut South, Schmitz and Lanfranchi deposits and the northern dome structure at the Lanfranchi JV and an initial drilling program on the recently acquired Cowan Project.

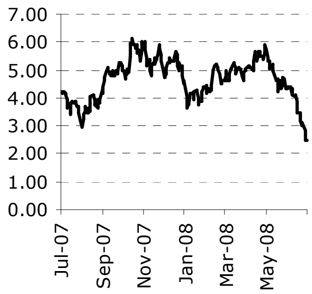
INVESTMENT VIEW

PAN owns and operates two producing nickel mines in Western Australia. The Savannah project in the Kimberley region is currently producing around 8.0kt of nickel in concentrate. The Lanfranchi JV near Kambalda is expected to produce around 8.0kt of contained nickel in FY08, rising to 15.0ktpa by FY11. PAN has a 75% interest in the Lanfranchi JV. The Copernicus JV will become PAN's third operating mine in the next few months and will process ore through the Savannah mill. PAN has a 60% interest in the Copernicus JV.

A weakening nickel price has seen PAN's share price fall dramatically over the past few months. The stock is down nearly 60% since mid May while the nickel price has fallen 24% over the same period and nearly 40% since early March. The weak nickel price has been compounded by a stronger Australian Dollar.

A 25-30% downgrade in our nickel price forecasts for FY09, FY10 and FY11 has seen our valuation for PAN fall 20% to $4.00/share. However following the significant drop in the share price, PAN is now trading at a 60% discount to our valuation and we are upgrading our recommendation on the stock from Hold to BUY. Our positive stance in underpinned by attractive FY09 EV/EBITDA and P/FCF multiples of 2.7X and 5.9X respectively.

Share price performance | PAN



Year end June	2007A	2008F	2009F	2010F
Revenue - A$M	299.3	237.2	267.9	297.1
EBITDA - A$M	204.2	124.8	129.6	141.7
NPAT - A$M	88.1	60.7	53.0	57.1
Free Cash Flow - A$M	165.7	9.6	79.1	92.0
EPS - cents	45.7	31.3	27.3	29.5
EPS - % chg	397.5	(31.4)	(12.7)	7.8
PER - x	5.4	7.8	9.0	8.3
DPS - cents	12.0	14.0	14.0	14.0
Dividend Yield - %	4.9	5.7	5.7	5.7
Franking - %	100.0	100.0	100.0	100.0

Notes: 1. Price target is equivalent to DCF valuation.

TRICOM

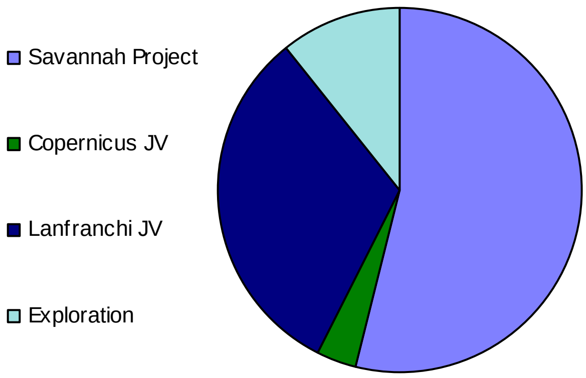
Year end June	2007A	2008F	2009F	2010F
PROFIT & LOSS SUMMARY (A$M)				
Sales revenue	**299.3**	**237.2**	**267.9**	**297.1**
Other revenue	3.0	5.4	5.5	8.4
Operating Costs	(88.5)	(110.9)	(136.2)	(156.1)
Exploration Expense	(1.8)	(1.4)	(2.0)	(2.0)
Corporate & Admin	(7.8)	(5.5)	(5.5)	(5.6)
EBITDA	**204.2**	**124.8**	**129.6**	**141.7**
Depreciation	(41.9)	(38.0)	(53.2)	(59.4)
EBIT	**162.3**	**86.7**	**76.5**	**82.3**
Interest Expense	(3.4)	(1.1)	(0.8)	(0.7)
Pre-tax profit	**158.8**	**85.6**	**75.7**	**81.6**
Tax expense	(36.5)	(25.0)	(22.7)	(24.5)
Net income	**122.3**	**60.7**	**53.0**	**57.1**
Minorities & Abnormals	(34.2)	0.0	0.0	0.0
NPAT	**88.1**	**60.7**	**53.0**	**57.1**
CASHFLOW SUMMARY (A$M)				
NPAT	88.1	60.7	53.0	57.1
Int, Tax, Expl Expensed	41.8	27.5	25.5	27.3
Int, Tax, Expl Incurred	(10.0)	(45.5)	(33.5)	(35.4)
Depreciation/Amortisation	41.9	38.0	53.2	59.4
Working Capital (Inc)/Dec	27.5	(19.8)	(0.8)	(0.2)
Other	10.0	7.5	0.0	0.0
Operating Cash Flow	**199.4**	**68.4**	**97.3**	**108.1**
Capex(net of asset sales)	(31.8)	(58.9)	(18.2)	(16.1)
Disposals/(Acquisitions)	(1.9)	0.1	0.0	0.0
Other investing cash flows	0.0	0.0	0.0	0.0
Free Cash Flow	**165.7**	**9.6**	**79.1**	**92.0**
Dividends	0.0	(36.2)	(26.9)	(26.9)
New Equity	3.9	1.0	0.1	0.0
Debt Drawdown/(Repay)	(80.7)	(4.9)	(0.9)	(0.8)
Net Cash Inc/(Dec)	**88.9**	**(30.4)**	**51.4**	**64.3**
FX impact on cash	0.0	0.0	0.0	0.0
Cash at End Period	119.6	89.2	140.6	204.9
Net Cash/(Debt)	**106.5**	**78.4**	**130.6**	**195.8**
BALANCE SHEET (A$M)				
Cash	119.6	89.2	140.6	204.9
Receivables	15.1	23.7	26.8	29.7
Inventories	9.5	11.9	13.4	14.9
Other current assets	9.0	7.1	8.0	8.9
Total current assets	**153.2**	**131.9**	**188.8**	**258.4**
Plant & equipment	49.3	77.7	53.4	22.0
Expl, eval & development	69.3	67.7	65.1	61.2
Other non-current assets	11.9	14.2	14.9	15.4
Total non-current assets	**130.5**	**159.7**	**133.3**	**98.6**
Total assets	**283.7**	**291.6**	**322.2**	**357.0**
Payables	32.7	19.0	21.4	23.8
Short-term debt	5.9	2.3	2.0	1.9
Other current liabilities	85.4	47.4	53.6	59.4
Total current liabilities	**124.0**	**68.7**	**77.0**	**85.1**
Long-term debt	7.2	9.2	8.1	7.5
Other non-current liabilities	30.6	57.7	54.9	52.1
Non-current liabilities	**37.8**	**66.9**	**63.0**	**59.6**
Total liabilities	**161.8**	**135.7**	**140.0**	**144.7**
NET ASSETS	**121.8**	**155.9**	**182.1**	**212.4**
Contributed equity	72.5	73.5	73.6	73.6
Retained profits	49.4	82.4	108.5	138.8
Minority interests	0.0	0.0	0.0	0.0
EQUITY	**121.8**	**155.9**	**182.1**	**212.4**

Year end June	2007A	2008F	2009F	2010F
RATIOS AND MULTIPLES				
Income				
Revenue growth | %	125.2	(19.7)	12.7	11.8
EBITDA growth | %	191.6	(38.9)	3.9	9.3
EBITDA margin | %	68.2	52.6	48.4	47.7
EBIT margin | %	54.2	36.6	28.5	27.7
Effective Tax rate | %	23.0	29.1	30.0	30.0
Net interest cover | x	47.1	78.4	96.1	112.0
Balance Sheet				
ROA | %	31.1	20.8	16.4	16.0
ROE | %	72.3	38.9	29.1	26.9
Net debt/equity | %	(87.4)	(50.2)	(71.7)	(92.2)
Net debt/(debt+equity) | %	(694.0)	(101.0)	(253.8)	(1,179.6)
Shares Outstanding				
Basic | M	185.1	191.9	192.0	192.0
Other | M	7.7	1.9	1.8	1.8
Fully diluted | M	192.9	193.7	193.7	193.7
Valuation metrics				
Market cap | M	473	475	475	475
Net debt (cash) | $M	(106)	(78)	(131)	(196)
Options | $M	19	5	4	4
Enterprise value | $M	385	401	348	283
EV/EBITDA | x	**1.9**	**3.2**	**2.7**	**2.0**
EPS | c	45.7	31.3	27.3	29.5
P/E | x	5.4	7.8	9.0	8.3
FCF / Share | c	89.5	5.0	41.2	47.9
Price / FCF | x	**2.7**	**48.9**	**5.9**	**5.1**
Dividend Yield | %	4.9	5.7	5.7	5.7
Franking | %	100.0	100.0	100.0	100.0

VALUATION

NPV by project	(A$M)	A$/share
Savannah Project	340.1	1.76
Copernicus JV	21.7	0.11
Lanfranchi JV	198.9	1.03
Forwards	51.4	0.27
Corporate	(28.3)	(0.15)
Exploration	68.9	0.36
Unpaid capital	4.0	0.02
Receivables	40.8	0.21
Cash	89.2	0.46
Debt	(10.9)	(0.06)
NPV @ 8%	**775.8**	**4.00**

NPV BY PROJECT



TRICOM

Year end June	2007A	2008F	2009F	2010F
PRODUCTION SUMMARY				
Nickel in concentrate production (kt)				
Savannah Project	8.0	7.7	8.0	8.0
Copernicus JV	0.0	0.0	0.9	1.3
Lanfranchi JV	3.9	5.4	9.0	11.0
Total	**11.9**	**13.1**	**17.9**	**20.3**
Copper in concentrate production (kt)				
Savannah Project	3.7	3.9	3.5	3.5
Copernicus JV	0.0	0.0	0.4	0.6
Lanfranchi JV	0.2	0.3	0.5	0.6
Total	**3.9**	**4.2**	**4.4**	**4.7**
Cobalt in concentrate production (kt)				
Savannah Project	0.4	0.4	0.5	0.5
Copernicus JV	0.0	0.0	0.1	0.1
Lanfranchi JV	0.2	0.1	0.1	0.2
Total	**0.7**	**0.5**	**0.7**	**0.7**
CASH COSTS				
Savannah Project	9.52	7.31	5.81	6.02
Copernicus JV	0.00	0.00	5.92	6.22
Lanfranchi JV	12.91	9.30	7.89	8.46
Average Cash Costs (A$/lb)	**10.63**	**8.13**	**6.86**	**7.35**

COMMODITY PRICE ASSUMPTIONS

Year end June	2007A	2008F	2009F	2010F	Long-term
Nickel (US$/lb)	17.22	12.92	9.75	9.71	9.00
Copper (US$/lb)	3.21	3.53	3.89	3.69	2.20
Cobalt (US$/lb)	21.47	37.08	31.68	26.73	22.50
US$/A$ FX	0.79	0.90	0.94	0.89	0.80

BOARD OF DIRECTORS

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

SUBSTANTIAL SHAREHOLDERS

Shareholder	Shares (M)	(%)
Barclays Capital	19.4	10.1%
Top 20	**145.9**	**74.6%**

RESERVES AND RESOURCES

Project	Mt	Ni %	Kt
Reserves			
Savannah	2.8	1.32%	36.8
Helmut South	0.4	2.17%	8.9
Winner	0.1	4.26%	6.1
Lanfranchi	0.0	1.94%	0.5
Schmitz Ext.	0.1	2.93%	2.8
Deacon	1.7	2.54%	43.0
Copernicus	0.8	1.09%	8.5
Total	**5.9**	**1.79%**	**106.6**
Resources			
Project	**Mt**	**Ni %**	**Kt**
Savannah	2.8	1.73%	48.9
Northern Ore Zone	0.5	0.80%	5.4
Winner	0.1	6.14%	6.9
Lanfranchi Extended	0.1	3.34%	4.5
Lanfranchi Remnant	0.1	2.38%	1.3
Schmitz Remnant	0.1	4.16%	4.5
Schmitz Extended	0.1	4.40%	3.8
Helmut Remnant	0.2	1.44%	2.7
Martin	0.1	3.86%	1.9
Edwin	0.0	4.85%	1.6
Ham	0.1	1.16%	0.8
Cruickshank	1.4	1.33%	18.0
Gigantus	0.7	1.46%	10.4
Deacon	1.9	3.04%	58.1
Copernicus	0.9	2.38%	10.6
Total	**9.0**	**2.00%**	**179.5**

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Analyst Certification

As at the time of writing this report, the author did not hold shares in Panoramic Resources Limited (PAN).

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