

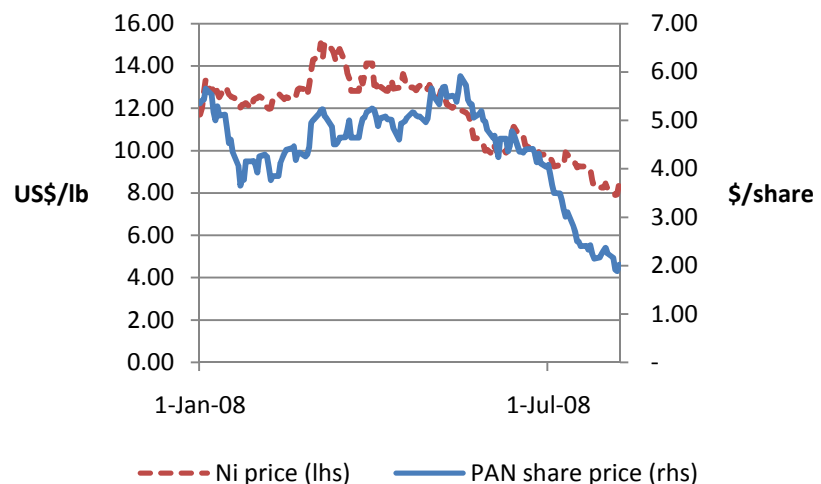
Talking Point

Friday, 8 August 2008

Panoramic Resources (PAN) – Oversold, low cost nickel miner

While the nickel price has taken a serious slide in H2FY08, we believe PAN has been oversold and represents a significant buying opportunity with limited downside. The company has two operating nickel mines in Australia, significant cash in the bank, a hedge book that is in the money, and it pays a dividend. The company is ramping up production in FY09 at existing operations to produce around 17-18kt of contained nickel in concentrate and ore (equity share).

PAN share price and Ni price – 1 Jan 2008 to 7 August 2008



Source: Iress

PAN's two operating nickel sulphide mines in Australia produced 15kt of contained nickel in FY08 (100% share). The company had NPAT of A\$88m in FY07 and has given guidance of NPAT of A\$60m – A\$70m in FY08. At June 2008 PAN had A\$126m in liquid assets, no debt and a hedge book that is \$40m in the money. At a market capitalisation of \$387m, PAN has an effective EV of \$221m. **Group cash costs for FY08 were A\$5.91/lb of payable nickel.** While current reserves indicate a mine life of about 5 to 6 years at both operations, we highlight the company's ability to increase resources quicker than it mines them. **Current nickel resources are about 10 times the increased production rate expected in FY09.**

PAN – Nickel resources (100% basis)

	Ore (kt)	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Savannah (100%)	4,740	1.48	0.72	0.08	70,300	34,050	3,670
Lanfranchi (75%)	4,817	2.38			114,716		
Copernicus (60%)	511	1.24			6,360		
Total	10,068				191,376	34,050	3,670

Source: Company

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Savannah (PAN – 100%)

Savannah (formerly Sally Malay) is now an underground operation located in the far north-east of WA and produced 96kt of concentrate in FY08 containing 7.6kt of nickel, 4.1kt of copper and 409t of cobalt. Cash costs for Savannah in Q4FY08 were A\$7.06/lb of payable nickel. The concentrate is exported to a Jinchuan Group smelter in China as part of an off-take agreement that ends in 2010, at which stage, the contract will be up for renewal.

The process plant has a nominal capacity of 1,000ktpa and only processed 689kt in FY08 and 731kt in FY07. The process has been somewhat constrained by production rates from the underground mine. However, mining at Copernicus open cut (PAN – 60%) has commenced and is intended to go some way to fill the excess capacity at the Savannah mill. Increased throughput and production at Savannah should also have a positive impact on reducing unit costs which were A\$4.24/lb of contained nickel at the mine gate for FY08.

Significant exploration work at Savannah has increased resources from 36,800t of nickel at June 2007 to 70,300t of nickel at June 2008. At current mining rates, there are currently enough resources for about five years of mining. However, we note **historical resources of up to another 80kt of nickel will more than likely prolong the mine life beyond ten years.**

Lanfranchi (PAN – 75%)

Lanfranchi operations are based 42km south of Kambalda. Ore from the mine is trucked to BHP's Kambalda concentrator and smelter, where it is sold and toll treated. The cost for getting a pound of nickel contained in ore to the Kambalda facilities was A\$2.58 in FY08. The ore is then concentrated and smelted and we estimate that PAN effectively receives a little less than 60% of the contained nickel value in the ore. Total C1 cash costs were A\$9.17/lb in FY08, however, \$6.90/lb of this were smelting costs including payable amounts, which we estimate would reduce significantly if the current lower nickel prices prevail.

In FY08, Lanfranchi operations produced 7.3kt of nickel in ore (100% basis) from 286mt of ore, up 40% from FY07. In FY09, this amount is expected to increase to around 11kt as operations are ramped up at the newly discovered Deacon orebody. We expect mining rates to increase in FY09, to more than 400kt of ore containing around 11kt of nickel. Current reserves at Lanfranchi are 61kt of nickel, allowing mining for six years at the increased production rate. We note current resources of more than 120kt of nickel and the likelihood of further increases in resources will result in a mine life beyond ten years.

Deacon resources are 1.9mt @ 3% nickel for 58kt of contained nickel. At Lanfranchi, the resource extends up and down dip and recent drilling results, which include 92.7m at 2.24% Ni and 72.2m @ 2.95% Ni, are encouraging. The company is targeting an extra 2.5mt at Lanfranchi @ 3% Ni for 80,000t of contained Ni.

Valuation

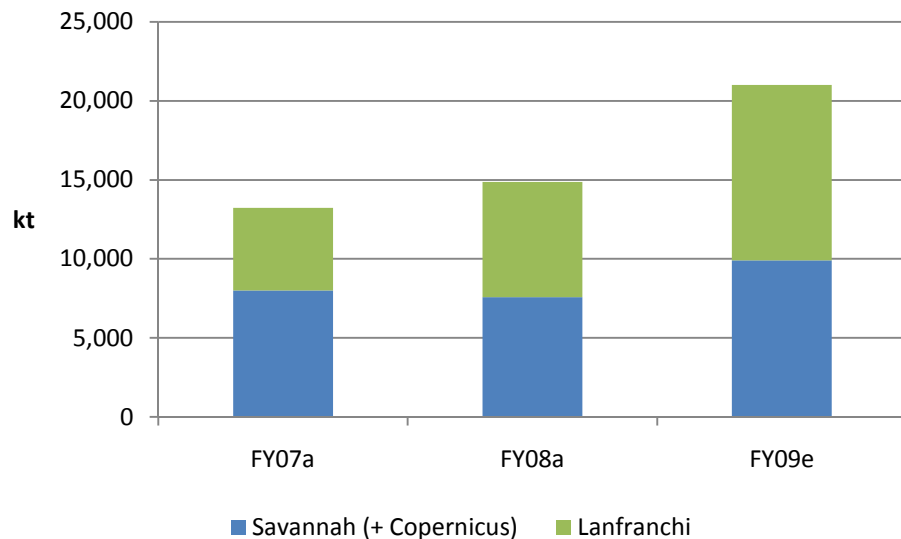
Based on a ten year mine life at each operation and a long term nickel price of US\$7.50/lb, we calculate a current DCF for the operations alone of \$1.92/share and \$2.24/share in one year's time. The table below shows our total valuation including liquid assets and hedge book.

PAN – Valuation based on DCF

	Now		1 - year time	
	A\$m	\$/share	A\$m	\$/share
Projects DCF	368.7	1.92	430.3	2.24
Liquid Assets	126.0	0.66	252.2	1.31
Hedge book	40.0	0.21	0.0	0.00
TOTAL	534.7	2.78	682.4	3.55

Source: FSB estimates

PAN – nickel production – 100% basis



Source: Company, FSB estimates

PAN – Company financials

Assumptions		FY08a	FY09e	FY10e	FY11e
Ni price	US\$/lb	12.93	8.50	8.00	8.00
AUD/USD		0.90	0.95	0.90	0.85
Production*	kt	13,051	17,235	17,235	17,235
Financials		FY08e	FY09e	FY10e	FY11e
Revenue	A\$m	271.9	312.8	284.0	266.5
EBITDA	A\$m	135.7	152.8	124.1	106.6
EBIT	A\$m	94.9	96.5	67.7	50.2
NPAT	A\$m	66.4	67.5	47.4	35.1
EPS	A\$/share	0.35	0.35	0.25	0.18
PER		5.8	5.7	8.2	11.0

Source: FSB estimates. * Production is a 100% basis. PAN owns 100% of Savannah and 75% of Lanfranchi

Increased production rates should largely offset our declining nickel price assumptions, resulting in relatively steady profits over the next few years. **We believe the risk to our nickel price assumptions is on the upside** as signs of high cost nickel production being cut back is already surfacing in the market. **We have a price target of \$3.50/share for PAN, largely reflecting our one-year forward DCF valuation.**

RECOMMENDATION: Buy PAN (Price: \$2.02; PT: \$3.50).

Foster Stockbroking Pty Limited

A.B.N. 15 088 747 148

Licence No. 223687

Level 21, 25 Bligh Street, SYDNEY, NSW 2000 Australia

Tel: +612 9221 8711 Dealing: +612 9221 8700 Fax: +612 9221 1031

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