Panoramic Resources Limited

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29 August 2008

Offtake to inject life into Savannah

Investment Highlights

- PAN reported a FY08 NPAT of $53.3M and a final dividend of 5cps, bringing the FY08 dividend to 12cps. The result was down on the company's forecast of $60M due to $3M pricing adjustment and a $2.5M reclassification of nickel and forex puts. While the result was disappointing given such recent guidance, we have updated our nickel and forex forecast today and despite continuing to factor in a much slower ramp up in production than PAN guidance (FY09 PSL = 16,524t vs PAN = 17-18,000t), the stock still represents real value. On the back of weaker nickel prices our price target has fallen to $4.09/sh but we retain our BUY recommendation.

- **Nickel Leverage:** PAN offers strong leverage to a higher nickel price with every 10% increase in our nickel forecast adding 54cps or 13% to our price target and every 10% decrease in forex adding 58cps or 14%. We support PAN's view that while lower nickel prices are possible in the short term, the supply/demand balance has tightened. Seasonally weak demand has been offset by even weaker supply as mines close, development/commissioning timetables slip and new sources of nickel must meet even higher hurdle rates given the increased cost and capital inputs.

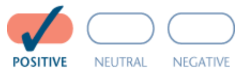
- **Lanfranchi JV (PAN 75%):** A new ventilation shaft is the critical path to increasing production from Deacon to 30kt/month and the overall Lanfranchi output. These works should be complete by CY end. On the exploration front the Deacon orebody will get bigger, ensuring attributable production of ~8ktpa will be sustained for +10years while testing the Northern Tramways Dome represents PAN's *'blue sky'*.

- **Savannah (PAN 100%):** Drilling of the Savannah Deeps is progressing as expected with the latest results (incl 105m @ 2% Ni, 0.8% Cu) being slightly higher grade. We see little risk of defining enough for +10 years at the current ~8ktpa rate. This is significant as the current offtake with Jinchuan is only until March 2010 and a proven +10 years will certainly inject some competitive tension into upcoming negotiations.

- **Copernicus JV (PAN 60%):** First Copernicus ore will be delivered to the hungry Savannah plant in October filling some of the underutilised capacity and helping keep a lid on unit costs. A decision on the Copernicus underground project is not expected until late in the Dec Q however we suggest at current levels it may be uneconomic.

Company	
Stock code:	**PAN**
Share price:	**$2.19**
Recommendation:	**BUY**

$3.68 **$4.50**

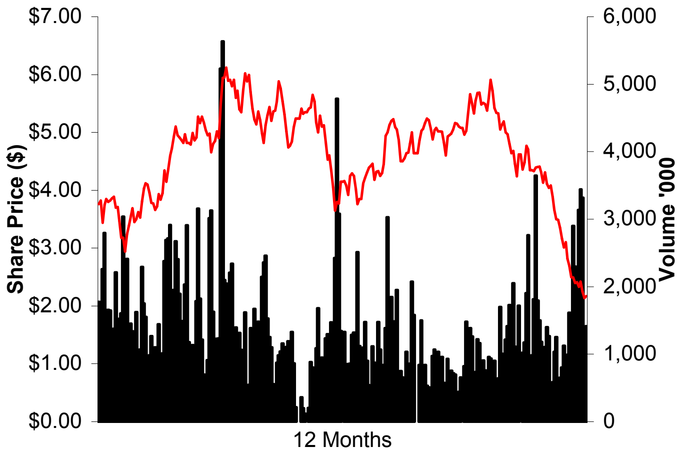


S&P/ASX 300 = 5130

Analyst	
Analyst:	Levi Spry
Phone:	(+61 8) 9263 1610
Email:	lspry@psl.com.au

Company Statistics & Performance

Shares on Issue	194.0m	**Daily Vol.**	1,290,000
Market Cap.	$424.8m	**Debt**	$0.0m
52 Week Range	$2.14 - $6.12	**Cash est.**	$110.9m



Investment Summary

Year End June 30	2008A	2009F	2010F	2011F
Reported Earnings				
Net Profit ($m)	53.3	54.8	64.6	42.4
EPS (cents)	27.8	28.6	33.6	22.1
EPS growth (%)	(41.7)	2.8	17.8	(34.4)
PER (x)	7.9	7.7	6.5	9.9
EBITDA				
EBITDA ($m)	116.7	132.8	150.1	116.4
EV/EBITDA (x)	2.6	1.9	1.1	1.0
Cashflow Multiples				
Gross Cashflow ($m)	77.6	105.8	118.8	94.6
GCFPS (cents)	40.5	55.1	61.9	49.3
PGCF (x)	5.4	4.0	3.5	4.4
Free Cashflow ($m)	40.1	69.1	107.6	84.5
FCFPS (cents)	20.7	35.6	55.5	43.6
PFCF (x)	10.6	6.1	3.9	5.0
Dividend				
Dividend (cents)	12.0	11.0	14.0	9.0
Yield (%)	5.5	5.0	6.4	4.1
Franking (%)	100	100	100	100

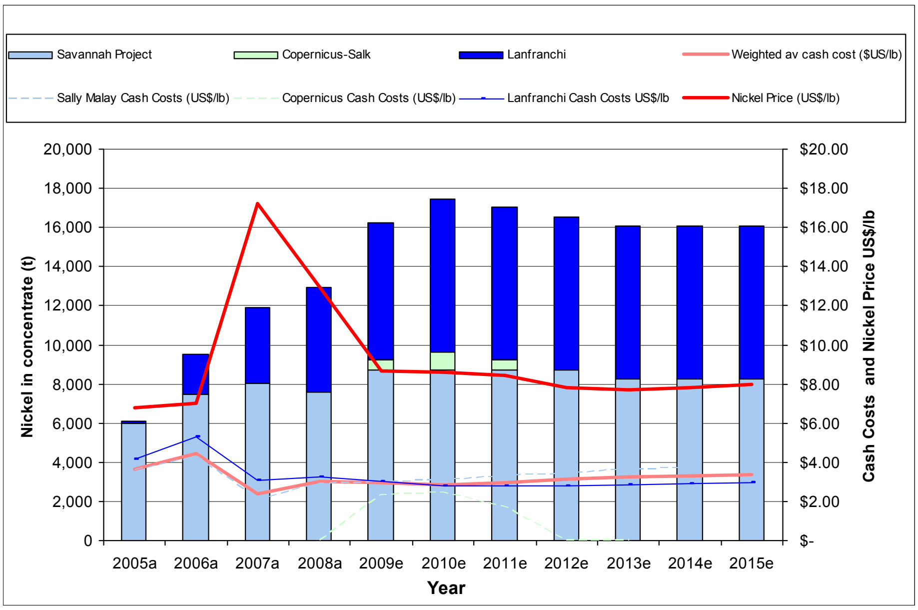
Upcoming Savannah Concentrate Offtake negotiations

- **Offtake expires March 2010:** The Savannah projects nickel concentrate production is secured under contract by Jinchuan until March 2010.
- **Jinchuan in box seat:** Jinchuan seems the likely winner again given the strength of the existing relationship and the fact that Jinchuan's own aggressive growth plans has forced it to outbid all others in recent negotiations.
- **Longer proven life at Savannah & power shift to PAN:** The current drill program targeting mineralisation below the 500 fault will lead to a significant resource upgrade before CY end and guarantee a +10 year minelife. A longer term offtake is much more attractive (the current one for only for a 5 year term) and the nickel concentrate market has definitely tightened since.
- **Higher payables for PAN?:** We do expect significant competitive tension in the tender process and believe this could see PAN better its current terms, possible adding another 2% payable nickel. PAN currently get paid circa 68% of the nickel metal contained in concentrate while Albidon Ltd's (ALB) more recent agreement with Jinchuan sees it receive closer to 70% of the nickel with higher payable credits. Similar terms for PAN (68% to 70%) would increase our price target by 17cps to $4.26/sh.
- **Takeover target:** The likely competitors to Jinchuan will be Xstrata and Norilsk, who have been two of the main consolidators of the nickel sulphide industry of late (only where they can secure the concentrate as well as the mine). This will again start the rumour mill on PAN being a takeover target.

Production Profile

- Following FY08 production of just shy of 13kt of nickel in concentrate, we are forecasting 16.2kt in FY09. This is a significant increase (25% yoy) and shows FY09 is PAN's step out year. It is however short of the 17-18kt forecast given by PAN but we remain comfortable with this and will monitor progress of the Deacon development including ventilation system and Copernicus open pit before possibly upgrading our forecasts.

Figure 1: PAN's Production Profile

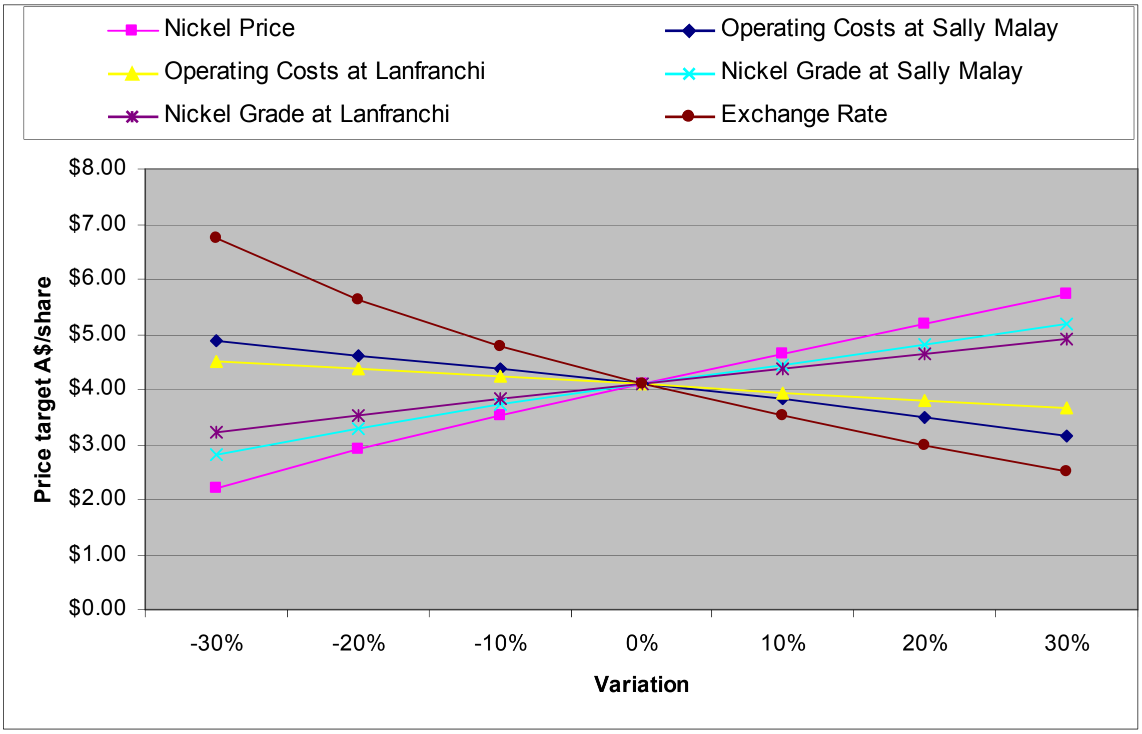


Source: Patersons Estimate

Sensitivity

- **Nickel Price:** Every 10% increase in the nickel price adds 54cps or 13% to our price target.
- **Exchange Rate:** Every 10% increase in the exchange rate decreases our price target by 58cps or 14%.
- **Grade:** The head grade at both operations presents real upside to our valuation likewise decreases in head grade (dilution) impact heavily.

Figure 2: PAN's Price Target Sensitivity

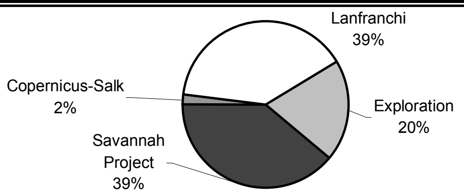


Source: Patersons Estimate

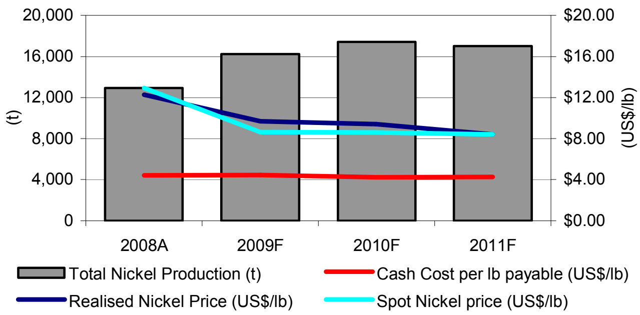
Panoramic Resources Limited (PAN) $2.19

Valuation	A$m		A$/sh
Savannah Project	196		1.01
Copernicus-Salk	10		0.05
Lanfranchi	198		1.02
Forwards	35		0.18
Corporate	(43)		(0.22)
Cash	111		0.57
Debt	0		0.00
Exploration	100		0.51
Unpaid capital	4		0.02
NPV	**611**		**3.15**
Price Target	**794**		**4.09**
Sensitivities	**+10%**	**0**	**-10%**
Nickel Price	$4.64	$4.09	$3.53
A$: $US	$3.51	$4.09	$4.78

Valuation Summary of Operating Assets



Nickel Production Summary



Reserves & Resources

Reserves	Kt	Metal	Grade (%)	Metal (kt)
Sally Malay	2,790	Ni	1.32	36.8
		Cu	0.61	17.0
		Co	0.07	2.0
Lanfranchi JV	673	Ni	2.72	18.3
Deacon	1,695	Ni	2.54	43.1
Total	**5,158**	**Ni**	**1.90**	**98.2**
Resources	**Kt**	**Metal**	**Grade (%)**	**Metal (kt)**
Sally Malay	4,740	Ni	1.48	70.2
		Cu	0.72	34.1
		Co	0.08	3.8
Copernicus JV	852	Ni	1.24	10.6
		Cu	0.60	5.1
		Co	0.04	0.3
Lanfranchi JV	3,087	Ni	2.00	61.9
Deacon	2,243	Ni	2.83	63.5
Total	**10,922**	**Ni**	**1.89**	**206.1**

Directors

Name	Position
Christopher de Guingand	Non-Executive Chairman
Peter Harold	Managing Director
Chris Langdon	Non Executive Director
John Rowe	Non Executive Director
Brian Phillips	Non Executive Director
Senior Management	**Position**
Chris Williams	Chief Operating Officer
Trevor Eton	Chief Financial Officer

Substantial Shareholders	Shares (m)	%
Barclays	12.2	6.6
BT Funds Management	7.2	3.9
GMO	6.9	3.7
Old Mutual	6.6	3.5
Bank Julius Baer	5.4	2.9
Top 20	**92.2**	**48.6**

Year End June 30

Commodity Assumptions	2008A	2009F	2010F	2011F
A$:US$	**$0.90**	**$0.86**	**$0.81**	**$0.80**
Nickel (US$/lb)	**$12.93**	**$8.65**	**$8.61**	**$8.42**
Copper (US$/lb)	$3.53	$3.40	$3.26	$3.03
Cobalt (US$/lb)	$45.41	$28.56	$21.67	$15.80
Zinc (US$/lb)	$1.18	$0.80	$0.81	$0.81
Lead (US$/lb)	$1.31	$0.86	$0.80	$0.58

Production Summary	2008A	2009F	2010F	2011F
Nickel (t)				
Savannah	7,579	8,694	8,694	8,694
Copernicus	0	547	912	520
Lanfranchi	5,344	7,013	7,820	7,820
Total Nickel Production (t)	**12,923**	**16,254**	**17,427**	**17,035**
Cobalt (t)				
Savannah	409	479	479	479
Copernicus	0	32	53	30
Lanfranchi	0	0	0	0
Copper (t)				
Savannah	4,072	4,188	4,188	4,188
Copernicus	0	435	725	413
Lanfranchi	331	399	428	428
Cash Cost per lb payable (US$/lb	$4.44	$4.45	$4.24	$4.27
Total Cost per lb payable (US$/lb)	$6.45	$6.41	$6.07	$6.04
Spot Nickel price (US$/lb)	$12.93	$8.65	$8.61	$8.42
Realised Nickel Price (US$/lb)	$12.28	$9.70	$9.43	$8.42

Profit & Loss (A$m)	2008A	2009F	2010F	2011F
Sales Revenue	**232.4**	**311.0**	**337.1**	**297.4**
Other Income	6.0	6.4	9.7	13.4
Operating Costs	107.8	165.8	177.6	174.9
Exploration Exp.	2.3	6.5	6.7	6.8
Corporate/Admin	11.7	12.2	12.5	12.7
EBITDA	**116.7**	**132.8**	**150.1**	**116.4**
Depn & Amort	40.4	54.5	57.9	55.9
EBIT	**76.3**	**78.3**	**92.2**	**60.5**
Derivatives adjustment	3.5	0.0	0.0	0.0
Interest	1.4	0.0	0.0	0.0
Operating Profit	**71.4**	**78.3**	**92.2**	**60.5**
Tax expense	18.1	23.5	27.7	18.2
NPAT	**53.3**	**54.8**	**64.6**	**42.4**
Normalised NPAT	**53.5**	**54.8**	**64.6**	**42.4**

Cash Flow (A$m)	2008A	2009F	2010F	2011F
Adjusted Net Profit	53.3	54.8	64.6	42.4
+ Interest/Tax/Expl Exp	21.7	30.0	34.3	25.0
- Interest/Tax/Expl Inc	37.8	33.6	37.9	28.6
+ Depn/Amort	40.4	54.5	57.9	55.9
+/- Other	0.0	0.0	0.0	0.0
Operating Cashflow	**77.6**	**105.8**	**118.8**	**94.6**
- Capex (+asset sales)	59.3	36.6	11.3	10.1
- Working Capital Increase	(21.8)	0.0	0.0	0.0
Free Cashflow	**40.1**	**69.1**	**107.6**	**84.5**
- Dividends (ords & pref)	36.1	19.2	24.9	23.0
+ Equity raised	3.6	4.3	0.0	0.0
+ Debt drawdown (repaid)	(16.3)	0.0	0.0	0.0
Net Change in Cash	**(8.7)**	**54.3**	**82.7**	**61.5**
Cash at End Period	110.9	165.2	247.8	309.3
Net Cash/(LT Debt)	111.0	165.2	247.8	309.3

Balance Sheet (A$m)	2008A	2009F	2010F	2011F
Cash	110.9	165.2	247.8	309.3
Total Assets	332.1	416.5	519.2	530.4
Total Debt	8.4	0.0	0.0	0.0
Total Liabilities	100.4	180.8	245.8	231.9
Shareholders Funds	231.7	235.7	273.4	298.5
Ratios				
Net Debt/Equity (%)	na	na	na	na
Interest Cover (x)	55.0	na	na	na
Return on Equity (%)	23.0	23.3	23.6	14.2

Research

Mark Simpson – Head of Research	Phone:	(+61 8) 9263 1678	Email:	msimpson@psl.com.au
Andrew Quin - Research Strategy Coordinator	Phone:	(+61 8) 9263 1152	Email:	aquin@psl.com.au
Resources				
Andrew Harrington – Coal Analyst	Phone:	(+61 2) 8238 6214	Email:	aharrington@psl.com.au
Alex Passmore – Head of Metals & Mining	Phone:	(+61 8) 9263 1239	Email:	apassmore@psl.com.au
Mark Savich – Resources Analyst	Phone:	(+61 8) 9263 1144	Email:	msavich@psl.com.au
Scott Simpson – Oil & Gas Analyst	Phone:	(+61 8) 9263 1679	Email:	ssimpson@psl.com.au
Levi Spry – Resources Analyst	Phone:	(+61 8) 9263 1610	Email:	lspry@psl.com.au
Josh Welch – Resources Analyst	Phone:	(+61 8) 9263 1668	Email:	jwelch@psl.com.au
Industrials				
John Deniz – Senior Industrial Analyst	Phone:	(+61 3) 8803 0160	Email:	jdeniz@psl.com.au
Allan Franklin	Phone:	(+61 8) 9263 1151	Email	afranklin@psl.com.au
David Gibson – Industrial Analyst	Phone:	(+61 8) 9263 1664	Email	dgibson@psl.com.au
Jonathan Kriska – Property Analyst	Phone:	(+61 2) 8238 6245	Email:	jkriska@psl.com,au
Mark Topy – Banking & Finance Analyst	Phone:	(+61 3) 8803 0117	Email:	mtopy@psl.com.au
Russell Wright - Retail Analyst	Phone:	(+61 2) 8238 6219	Email:	rwright@psl.com.au

Institutional Dealing

Phil Schofield	Phone:	(+61 2) 8238 6223	Email:	pschofield@psl.com.au
Michael Brindal	Phone:	(+61 2) 8238 6274	Email:	mbrindal@psl.com.au
Dan Bahen	Phone:	(+61 2) 8238 6237	Email:	dbahen@psl.com.au
Tina Clark	Phone:	(+61 2) 8238 6264	Email:	tclark@pls.com.au
Paul Doherty	Phone:	(+61 3) 8803 0108	Email:	pdoherty@psl.com.au
Trent Foxe	Phone	(+61 2) 8238 6265	Email:	tfoxe@pls.com.au
Andrew Frazer	Phone:	(+61 8) 9263 1241	Email:	afrazer@psl.com.au
Jason Lal	Phone:	(+61 2) 8238 6276	Email:	jlal@psl.com.au
Ben McIlvride	Phone:	(+61 2)8238 6253	Email:	bmcilvride@psl.com.au
Jeremy Nugara	Phone:	(+61 3) 8803 0166	Email:	jnugara@psl.com.au
Trevor Pike	Phone:	(+61 3) 8803 0110	Email:	tpike@psl.com.au
Nicholas Whiteley	Phone:	(+61 2)8238 6244	Email:	nwhiteley@psl.com.au
Sandy Wylie	Phone:	(+61 8) 9263 1232	Email:	swylie@psl.com.au

Patersons Securities Limited ABN 69 008 896 311 AFSL No. 239 052
Participant of ASX Group
Securities & Derivatives Industry Association Principal Member
Financial Planning Association Principal Member

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Western Australia

Perth - Head Office: Level 23, Exchange Plaza, 2 The Esplanade, Perth, Western Australia 6000
Ph: (+61 8) 9263 1111 Fax: (+61 8) 9325 6452 Email: patersons@psl.com.au

West Perth Office: Level 2, 34 Colin Street, West Perth Western Australia 6005
Ph: (+61 8) 9482 0900 Fax: (+61 8) 9482 0999 Email: patersons@psl.com.au

Albany Office: Level 2, Middleton Centre, 184 Aberdeen Street, Albany, Western Australia 6330
Ph: (+61 8) 9842 4700 Fax: (+61 8) 9841 4211 Email: albany@psl.com.au

Bunbury Office: Unit 3, 53 Victoria Street Bunbury, Western Australia 6230
Ph: (+61 8) 707 2000 Fax: (+61 8) 9721 1840 Email: bunbury@psl.com.au

Busselton Office: Suite 1, 72 Duchess Street, Busselton Western Australia 6280
Ph: (+61 8) 9754 0700 Fax: (+61 8) 9754 4333 Email: busselton@psl.com.au

Kalgoorlie Office: 63 Hannan Street, Kalgoorlie, Western Australia 6430
Ph: (+61 8) 9021 1422 Fax: (+61 8) 9021 8133 Email: kalgoorlie@psl.com.au

New South Wales

Sydney Office: Level 27, 264 George Street, Sydney New South Wales 2000
Ph: (+61 2) 8238 6222 Fax: (+61 2) 8238 6266 Email: sydney@psl.com.au

Victoria

Melbourne Office: Level 18, 90 Collins Street, Melbourne Victoria 3000
Ph: (+61 3) 8803 0100 Fax: (+61 3) 8803 0199 Email: melbourne@psl.com.au

Queensland

Brisbane Office: Level 37, 123 Eagle Street, Brisbane Queensland 4000
Ph: (+61 7) 3737 8000 Fax: (+61 7) 3737 8100 Email: brisbane@psl.com.au

ACT

Canberra Office: Level 4, 53 Blackall Street, Barton ACT 2600
Ph: (+61 2) 6120 2222 Fax: (+61 2) 6273 3433 Email: canberra@psl.com.au