

Lower risk entry to nickel price upside



Price target reduced on lower earnings

We have reduced our earnings forecasts by 28% for FY09 and 4.8% for FY10; thus, we have lowered our price objective by almost 19% from A\$6.16/sh to A\$5/sh. The main drivers behind the reduction in our earnings estimates are lower nickel and cobalt prices forecasts, which are only partially offset by the lower A\$, and higher costs. For FY11E and FY12E, we boost earnings by 14% on changes we have made to the modelling of development costs.

Price objective and risks

PO of \$5.00/share is based on FY08E and FY09E P/Es of 12.5x and 9x, respectively. Once the nickel price improves as forecast, we expect PAN to trade to premium, reflecting its volume growth profile (9kt FY08 to 13kt FY11 up 49%). Takeover is an ever-present risk to the upside in the current market. Other risks are nickel prices, exchange-rate movements and project-specific risk. Mine life is dependent on exploration success.

Panoramic benefits from the weaker A\$

Panoramic's costs are split into largely A\$ based underground mining milling costs, and smelter and royalty costs which are a % of the nickel price. That means that as the nickel price falls, some 40% of costs fall also, and the remaining (fixed) costs are in A\$, which benefit from A\$ weakness. This makes PAN a more defensive asset to own in the current weak equity market.

Estimates (Jun)

(A\$)	2007A	2008A	2009E	2010E	2011E
Net Profit b/f Abnormals	88	53	77	111	72
EPS	0.461	0.278	0.402	0.572	0.373
EPS Change (YoY)	449.3%	-39.8%	44.9%	42.2%	-34.8%
Dividend / Share	0.116	0.118	0.154	0.225	0.125
Free Cash Flow / Share	0.867	0.158	0.061	0.387	0.230

Valuation (Jun)

	2007A	2008A	2009E	2010E	2011E
P/E	4.40x	7.31x	5.05x	3.55x	5.44x
Dividend Yield	5.73%	5.82%	7.60%	11.07%	6.15%
EV / EBITDA*	1.73x	2.76x	2.63x	1.63x	2.35x
Free Cash Flow Yield*	43.08%	7.89%	3.03%	19.46%	11.59%

* For full definitions of *iQmethod*SM measures, see page 6.

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Stock Data

Price	A\$2.03
Price Objective	A\$6.16 to A\$5.00
Date Established	5-Sep-2008
Investment Opinion	C-1-7
Volatility Risk	HIGH
52-Week Range	A\$1.83-A\$6.21
Mrkt Val / Shares Out (mn)	US\$320 / 189.5
Average Daily Volume	1,564,107
ML Symbol / Exchange	SLLYF / ASX
Bloomberg / Reuters	PAN AU / PAN.AX
ROE (2009E)	30.1%
Net Dbt to Eqty (Jun-2008A)	-44.2%
Est. 5-Yr EPS / DPS Growth	7.8% / 9.9%
Free Float	100.0%



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Refer to important disclosures on page 7 to 8. Analyst Certification on Page 5. Price Objective Basis/Risk on page 5.

iQprofileSM Panoramic Resources Ltd.

Key Income Statement Data (Jun)

(A\$ Millions)	2007A	2008A	2009E	2010E	2011E
Sales	299	238	255	309	256
Operating Expenses	(98)	(128)	(137)	(142)	(143)
EBITDA	167	107	118	167	112
Depreciation & Amortization	(42)	(40)	(12)	(16)	(19)
EBIT	125	67	106	151	93
Net Interest & Other income	0	5	4	7	11
Associates	NA	NA	NA	NA	NA
Pretax Income	125	71	111	158	103
Tax (expense) / Benefit	(36)	(18)	(33)	(47)	(31)
Net Profit b/f Abnormals	88	53	77	111	72
Non-Recurring Items	0	0	0	0	0
Net Income (Reported)	88	53	77	111	72
Avg F Diluted Shares Outstanding	191	192	193	193	194

Key Cash Flow Statement Data

EBITDA	167	107	118	167	112
Change in Working Capital	39	5	0	0	0
Deferred Taxation Charge	36	(3)	0	0	0
Other Adjustments, Net	0	1	0	0	0
Cash Flow from Operations	206	96	89	127	92
Capital Expenditure	(41)	(66)	(78)	(52)	(47)
(Acquisition) / Disposal of Investments	0	0	0	0	0
Other Cash Inflow / (Outflow)	0	0	0	0	0
Cash Flow from Investing	(41)	(65)	(78)	(52)	(47)
Shares Issue / (Repurchase)	4	4	0	0	0
Cost of Dividends Paid	0	(36)	(27)	(35)	(35)
Cash Flow from Financing	(77)	(39)	(27)	(35)	(35)
Free Cash Flow	166	30	12	75	45
Net Debt	(106)	(103)	(87)	(127)	(137)
Change in Net Debt	NA	NA	NA	NA	NA

Key Balance Sheet Data

Property, Plant & Equipment	95	78	101	102	101
Other Non-Current Assets	9	1	1	1	1
Trade Receivables	15	17	17	17	17
Cash & Equivalents	120	111	96	136	146
Other Current Assets	9	29	29	29	29
Total Assets	284	332	383	459	496
Long-Term Debt	7	2	8	8	8
Other Non-Current Liabilities	24	26	26	26	26
Short-Term Debt	6	6	0	0	0
Other Current Liabilities	85	26	26	26	26
Total Liabilities	162	100	100	100	100
Total Equity	122	232	282	358	396
Total Equity & Liabilities	284	332	383	459	496

iQmethodSM - Bus Performance*

Return on Capital Employed	61.7%	24.7%	26.0%	30.6%	17.3%
Return on Equity	143.3%	32.1%	30.1%	34.5%	19.2%
Operating Margin	41.8%	28.0%	41.7%	48.8%	36.3%
EBITDA Margin	55.8%	44.9%	46.4%	54.1%	43.9%

iQmethodSM - Quality of Earnings*

Cash Realization Ratio	1.7x	1.7x	1.2x	1.1x	1.3x
Asset Replacement Ratio	1.0x	1.6x	6.5x	3.2x	2.4x
Tax Rate (Reported)	29.3%	25.3%	30.0%	30.0%	30.0%
Net Debt-to-Equity Ratio	-87.4%	-44.2%	-31.0%	-35.6%	-34.7%
Interest Cover	36.3x	48.1x	133.4x	217.7x	133.8x

Key Metrics

Franking	100%	100%	100%	100%	100%
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* For full definitions of iQmethodSM measures, see page 6.

Company Description

Panoramic Resources (previously Sally Malay) is a junior nickel miner with 2 production centres in WA. SMY target strong production growth from Lanfranchi and Sally Malay operations targeting >20ktpa Ni from FY10.

Investment Thesis

SMY is a pure nickel miner with two operations in WA and production targeted to grow from 11.9ktpa in FY07 to about 13ktpa in FY08, 19ktpa in FY09 and 20ktpa from FY10. Exploration upside is attractive at both operations with possible resource and reserve upgrades in the next 12 months. Share price performance will depend largely on the nickel price. This is a relatively safe nickel company, with costs either related to the nickel price, or in A\$, giving it protection during downturns.

Stock Data

Price to Book Value 1.4x

Earnings Changes

Table 1: Earnings Changes

	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	NAV
Previous	83.95	107.86	116.21	62.66	71.58	3.70
Modeling Changes Result	-30.62	-13.12	5.54	9.78	8.23	-0.03
New Assumptions	0.00	-17.30	-11.15	-0.18	-1.38	-0.12
Model	53.33	77.45	110.60	72.26	78.42	3.55
% Change	-36%	-28%	-5%	15%	10%	-4%

Source: MRE, Merrill Lynch Estimates

Non-commodity earnings changes

These earnings changes include the conversion of FY08 estimate to actual, the remodelling of our earnings model to include undated currency hedging and nickel hedging past 2008, higher costs near term, and a more appropriate accounting of mine development in the medium term. The net effect of this is negative in FY09 and FY10 (mainly nickel hedging and costs) and positive in FY11 FY12 (mainly the different treatment of mine development costs).

Commodity and A\$ changes

Table 2: Commodity price changes

Prices US\$/lb	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12
New					
Nickel	12.96	10.25	10.38	8.50	8.00
Copper	3.52	3.67	3.60	2.85	2.30
Cobalt	137.44	31.00	22.50	17.50	15.00
A\$/US\$	0.897	0.888	0.853	0.793	0.765
Previous					
Nickel	13.11	12.00	11.75	8.50	8.00
Copper	3.41	3.69	3.60	2.85	2.30
Cobalt	35.87	41.25	25.00	22.50	20.00
A\$/US\$	0.891	0.938	0.868	0.800	0.765
Previous					
Nickel	-1.2%	-14.6%	-11.7%	0.0%	0.0%
Copper	3.2%	-0.4%	0.0%	0.0%	0.0%
Cobalt	283.1%	-24.8%	-10.0%	-22.2%	-25.0%
A\$/US\$	0.6%	-5.2%	-1.7%	-0.9%	0.0%

Source: Merrill Lynch Estimates

We have taken a more conservative view of where nickel prices are headed. We still see a rebound in H1 2009 (Nickel to a Q2 peak of US\$11.50/lb), but more muted in increase and less sustained than previously. The impact is mainly in 2009 and 2010, before reverting to our largely unchanged longer term prices.

05 September 2008

Chart 1: Key Operating Data

Profit and Loss						Balance Sheet					
YE June	08A	09E	10E	11E	12E		08A	09E	10E	11E	12E
Sales	238.5	255.3	308.8	255.6	234.6	Cash & STD's	110.9	95.8	135.9	145.6	171.3
Other Revenue	0.0	0.0	0.0	0.0	0.0	Debtors	17.7	17.7	17.7	17.7	17.7
Total Revenue	238.5	255.3	308.8	255.6	234.6	Inventory	11.2	11.2	11.2	11.2	11.2
Depreciation & Amortisation	-40.4	-12.0	-16.4	-19.5	-17.0	Other Current Assets	28.8	28.8	28.8	28.8	28.8
Operating Costs	-113.9	-114.1	-119.7	-122.5	-101.4	Fixed Assets	77.7	100.7	102.3	100.8	101.8
Exploration	-2.3	-10.7	-8.5	-7.3	-7.2	Exploration & Development	71.3	114.1	148.3	177.4	206.0
Other Costs	-11.7	-12.1	-13.3	-13.7	-11.0	Investments	14.2	14.2	14.2	14.2	14.2
EBIT	66.8	106.4	150.8	92.7	98.0	Intangibles	0.0	0.0	0.0	0.0	0.0
Net Interest	4.6	4.2	7.2	10.6	14.0	Other Non-Current Assets	0.3	0.3	0.3	0.3	0.3
Pretax Profit	71.4	110.6	158.0	103.2	112.0	Total Assets	332.1	382.8	458.6	496.1	551.3
Tax	-18.1	-33.2	-47.4	-31.0	-33.6	Current Debt	6.4	0.0	0.0	0.0	0.0
Operating NPAT	53.3	77.4	110.6	72.3	78.4	Creditors	31.3	31.3	31.3	31.3	31.3
Significant Items	0.0	0.0	0.0	0.0	0.0	Provisions/Other	8.1	8.1	8.1	8.1	8.1
OEI	0.0	0.0	0.0	0.0	0.0	Non-Current Debt	2.0	8.4	8.4	8.4	8.4
Reported NPAT	53.3	77.4	110.6	72.3	78.4	Other Non-Current Liabs	26.5	26.5	26.5	26.5	26.5
EBIT Contrib. @ Spot (A\$m)						Total Liabilities	74.3	74.3	74.3	74.3	74.3
Sally Malay Project	111.22	103.02	119.79	87.73	85.61	Net Assets = Equity	257.8	308.5	384.3	421.8	477.0
Lanfranchi JV	26.99	37.10	43.53	25.89	30.60	Gearing (ND / ND + E)	-66.0%	-39.5%	-49.6%	-48.2%	-51.8%
Hedging	-35.17	-10.89	9.37	0.00	0.00	D / E	3.3%	2.7%	2.2%	2.0%	1.8%
Corporate/Other	-34.02	-12.11	-13.33	-13.67	-11.03	ROE (%)	20.7	27.4	31.9	17.9	17.5
Exploration & Development	-2.26	-10.70	-8.53	-7.29	-7.16	ROA (%)	16.1	21.7	26.3	15.1	15.0
Group EBIT	66.8	106.4	150.8	92.7	98.0	Shares on issue	190.7	192.8	193.4	193.4	193.4
						Book NTA	1.35	1.60	1.99	2.18	2.47
						Source: PAN, Merrill Lynch Estimates					
Assumptions											
(A\$/US\$)	0.90	0.89	0.85	0.79	0.77						
Nickel Price (US\$/lb)	1,296	1,025	1,038	850	800	Cashflow					
Silver Price (US\$/oz)	352	367	360	285	230	YE June	08A	09E	10E	11E	12E
Copper Price (US\$/lb)	352	367	360	285	230	EBITDA	107.2	118.4	167.2	112.1	115.1
Source: PAN, Merrill Lynch Estimates						Tax Paid	-21.5	-33.2	-47.4	-31.0	-33.6
						Other Op. CF	10.2	4.2	7.2	10.6	14.0
						Operating Cash Flow	95.8	89.5	127.0	91.7	95.4
Operating Costs						Capex - PPE	-22.2	-35.0	-18.0	-18.0	-18.0
Cash Operating Costs (minegate)	08A	09E	10E	11E	12E	Capex - E&D	-43.3	-42.8	-34.1	-29.2	-28.6
Sally Malay Project (A\$/lb)	4.26	5.34	4.69	5.07	3.99	Other Invest. CF	0.1	0.0	0.0	0.0	0.0
Sally Malay Project (US\$/lb)	3.82	4.74	4.00	4.02	3.06	Investing Cash Flow	-65.4	-77.8	-52.1	-47.2	-46.6
Lanfranchi JV (A\$/lb)	2.59	2.34	2.45	2.56	2.22	Net Debt Payments	-6.6	0.0	0.0	0.0	0.0
Lanfranchi JV (US\$/lb)	2.32	2.08	2.09	2.03	1.70	Dividends Paid	-36.1	-26.8	-34.8	-34.8	-23.2
Group Cash Op Costs (US\$/lb)	3.20	3.42	3.02	3.04	2.39	Other Fin. CF	3.6	0.0	0.0	0.0	0.0
						Financing Cash Flow	-39.1	-26.8	-34.8	-34.8	-23.2
(includes TC/RCs)						Increase/(Decrease) in Cas	-8.7	-15.1	40.1	9.8	25.6
Cash Operating Costs	08A	09E	10E	11E	12E	OCFPS (¢)	49.9	46.5	65.7	47.4	49.3
Sally Malay Project (A\$/lb)	7.20	6.32	6.17	6.42	6.58	FCF (A\$m)	30.3	11.7	74.8	44.6	48.8
Sally Malay Project (US\$/lb)	6.45	5.61	5.26	5.09	5.03	Production Statistics					
Lanfranchi JV (A\$/lb)	9.18	7.79	8.16	7.58	7.21	Production (attributable)	08A	09E	10E	11E	12E
Lanfranchi JV (US\$/lb)	8.23	6.92	6.96	6.01	5.52	Sally Malay Project (t Ni)	7,579	9,158	10,030	10,030	10,030
Group Cash Op Costs (US\$/lb)	7.19	6.27	6.13	5.54	5.27	Lanfranchi JV (t Ni)	5,429	9,071	10,500	9,750	9,750
						Total	13,008	18,229	20,530	19,780	19,780
Total Cash Costs	08A	09E	10E	11E	12E	Production (payable)	08A	09E	10E	11E	12E
Sally Malay Project (A\$/lb)	9.00	7.13	7.02	7.28	7.44	Sally Malay Project (t Ni)	5,322	6,227	6,820	6,820	6,820
Sally Malay Project (US\$/lb)	8.07	6.33	5.98	5.77	5.69	Lanfranchi JV (t Ni)	3,502	5,896	6,825	6,338	6,338
Lanfranchi JV (A\$/lb)	10.74	8.73	9.27	8.87	8.29	Total	8,824	12,123	13,645	13,158	13,158
Lanfranchi JV (US\$/lb)	9.63	7.76	7.91	7.03	6.34	Source: PAN, Merrill Lynch Estimates					
Group Total Costs (US\$/lb)	8.72	7.04	6.97	6.39	6.01						

Source: PAN, Merrill Lynch Estimates

Source: PAN, Merrill Lynch Estimates

Price objective basis & risk

Panoramic Resources Ltd (SLLYF)

Our PO of \$5.00/share is based on FY08E and FY09E P/Es of 12.5x and 9x, respectively. Once the nickel price improves as forecast, we expect PAN to trade to a premium. Takeover is an ever-present risk to the upside in the current market. Other risks are nickel prices, exchange-rate movements and project-specific risk. Mine life is dependent on exploration success.

Analyst Certification

I, Mike Harrowell, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Australia-Metals, Mining & Steel Coverage Cluster

Investment rating	Company	ML ticker	Bloomberg symbol	Analyst
BUY				
	Alumina	AWCMF	AWC AU	Vicky Binns
	Alumina Ltd-ADR	AWC	AWC US	Vicky Binns
	Atlas Iron	ATLGF	AGO AU	Mike Harrowell
	Avoca Resources	AVORF	AVO AU	Anna Kassianos
	BlueScope Steel	BLSFF	BSL AU	Mike Harrowell
	Felix Resources Limited	FLRFF	FLX AU	Stuart Howe
	Gloucester Coal	GCRLF	GCL AU	Stuart Howe
	Kingsgate Consolidated Ltd	KSKGF	KCN AU	Anna Kassianos
	Mount Gibson Iro	MTGRF	MGX AU	Mike Harrowell
	Murchison Metals	MUMTF	MMX AU	Mike Harrowell
	Newcrest Mining	NCMGF	NCM AU	Mike Harrowell
	Oceana Gold	OCGDF	OGC AU	Anna Kassianos
	OM Holdings Ltd	XOMHF	OMH AU	Vicky Binns
	OZ Minerals Ltd	OZMLF	OZL AU	Mike Harrowell
	Paladin Energy	PALAF	PDN AU	Olivia Ker
	Panoramic Resources Ltd	SLLYF	PAN AU	Mike Harrowell
	Sims Group	SMUPF	SGM AU	Mike Harrowell
	Sino Gold	SIOGF	SGX AU	Anna Kassianos
NEUTRAL				
	Energy Res Aust	EGRAF	ERA AU	Olivia Ker
	OneSteel	OSTLF	OST AU	Mike Harrowell
UNDERPERFORM				
	Iluka Resources	ILKAF	ILU AU	Mike Harrowell
	Lihir Gold Ltd	LIHRF	LGL AU	Anna Kassianos
	Lihir Gold-ADR	LIHR	LIHR US	Anna Kassianos
	Macarthur Coal Ltd.	MACDF	MCC AU	Stuart Howe
	Midwest Corp Ltd	MISKF	MIS AU	Mike Harrowell
	Minara Resources	MREJF	MRE AU	Mike Harrowell
RESTRICTED				
	BHP Billiton Ltd	BHPLF	BHP AU	Vicky Binns
	BHP Billiton-ADR	BHP	BHP US	Vicky Binns
	Rio Tinto Ltd	RTNTF	RIO AU	Vicky Binns

iQmethodSM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) * (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	$\text{EV} = \text{Current Share Price} * \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} + \text{Sales} + \text{Other LT Liabilities}$	
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

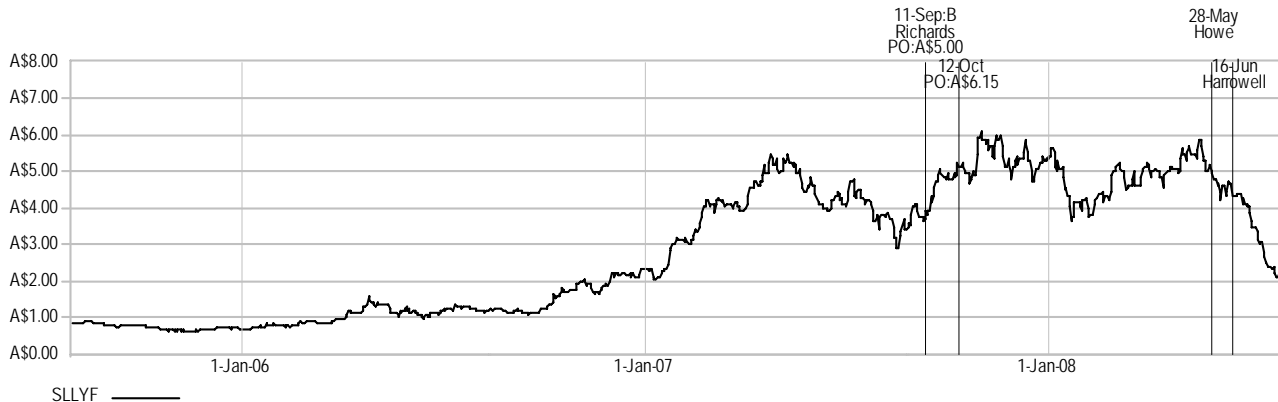
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Important Disclosures

SLLYF Price Chart



B : Buy, N : Neutral, S : Sell, U : Underperform, PO : Price objective, NA : No longer valid

Prior to May 31, 2008, the investment opinion system included Buy, Neutral and Sell. As of May 31, 2008, the investment opinion system includes Buy, Neutral and Underperform. Dark Grey shading indicates that a security is restricted with the opinion suspended. Light grey shading indicates that a security is under review with the opinion withdrawn. The current investment opinion key is contained at the end of the report. Chart is current as of July 31, 2008 or such later date as indicated.

Investment Rating Distribution: Non-Ferrous Metals/Mining & Minerals Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	71	52.99%	Buy	13	20.63%
Neutral	30	22.39%	Neutral	9	39.13%
Sell	33	24.63%	Sell	5	19.23%

Investment Rating Distribution: Global Group (as of 01 Jul 2008)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1664	47.42%	Buy	441	29.46%
Neutral	803	22.88%	Neutral	224	31.46%
Sell	1042	29.70%	Sell	217	22.84%

* Companies in respect of which MLPF&S or an affiliate has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its *Coverage Cluster* (defined below). There are three investment ratings: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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