

PRICE TARGET REVISION | COMMENT

JANUARY 29, 2009

Panoramic Resources Limited (ASX: PAN)

Shining the cost spotlight

**Outperform
Above Average Risk**

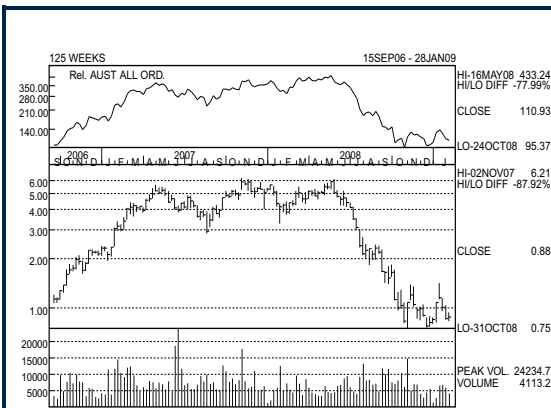
Price:	0.89	Price Target:	1.55 ↓ 1.80
Shares O/S (MM):	191.9	Implied All-In Return:	88%
Dividend:	0.12	Market Cap (MM):	171
NAVPS:	1.54	Yield:	13.5%
Float (MM):	191.9	P/NAVPS:	0.6x

Event

- Strong DecQ production and cost performance, cost reduction measures, Copernicus driven asset writedown.

Investment Opinion

- **Solid operating quarter.** Record attributable quarterly nickel production of 4.40kt (RBC 4.25kt, SepQ 3.52kt) was delivered at an average cash cost of A\$5.25/lb (US\$3.55/lb) payable nickel. The strong operating result was driven by increases in head grade at Savannah and ore throughput at Lanfranchi.
- **The cost spotlight.** PAN is the latest in a long list of mining players to move aggressively in curtailing spending and trimming cost bases. All discretionary capital projects have been deferred (nothing critical), a 10% salary reduction implemented and Lanfranchi has been shifted from a four to three jumbo operating basis. This follows the earlier placing of the marginal Copernicus satellite pit on care and maintenance. Revised FY09 equity production guidance is 15.5-16.5kt contained nickel (previously 17-18kt).
- **Messy half.** The 1HFY09 result is set to include significant negative provisional pricing adjustments and a A\$17.8m (pre-tax) writedown, predominantly attributed to the Copernicus project. Both these outcomes should have been anticipated by the market. The final 1HFY09 result is expected to be a loss of around A\$10m. We also highlight the risk of a zero interim dividend (current forecast A1cps) should the Board choose to be ultra-conservative.
- **Balance sheet.** At 31 Dec 2008, PAN held cash of A\$50m and total debt of A\$5m. The major driver of the drop in the cash balance from the SepQ (A\$82m), was a A\$22m tax payment. Capital and exploration expenditure was in line with expectations and is expected to taper away significantly from this half.
- **Underlying earnings revisions:** Net negative FY09 and positive FY10 impacts from lowered production, slightly reduced costs and and lower D&A.
- **Retain OP, target lowered to A\$1.55ps.** Panoramic is well capitalised and the holder of a nickel/currency hedgebook that is A\$74m in the money. Additionally, PAN's two operations are comfortably operational cash flow positive even at solely current nickel and A\$/US\$ spot prices. While the outlook for nickel remains subdued in the near term, PAN is our preferred Australian nickel exposure on relative value grounds.



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FY Jun	2008A	2009E	2010E	2011E
Adj EPS - FD	0.27	0.11	0.15	0.01
Prev.		0.15	0.13	
P/AEPS	3.3x	8.1x	5.9x	NM
Annual Div. - FD	0.12	0.04	0.07	0.00
Prev.		0.06	0.05	0.01
EV/EBITDA	0.7x	2.1x	1.4x	2.7x

All values in AUD unless otherwise noted.

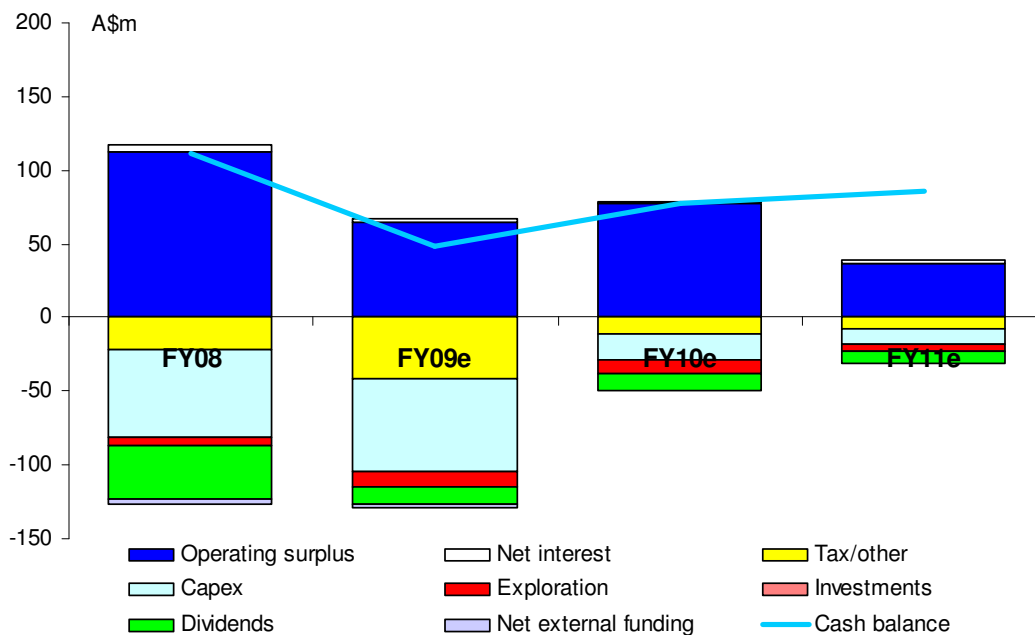
Priced as of prior trading day's market close, EST (unless otherwise noted).

For Required Disclosures, please see Page 8.

1H09 result and balance sheet status

- Two major earnings impacts (both expected in nature and previously flagged):
 - Provisional pricing** – Negative A\$6.5m revenue adjustment for the DecQ associated with Lanfranchi sales. Savannah sales incur minimal PP revision as they are based on the average nickel price for the month of shipment, as opposed to the more typical several months later.
 - Asset writedowns** (predominantly Copernicus) – We had previously highlighted that PAN’s decision to place the marginal Copernicus satellite open pit (PAN 60%, ~1kt attrib nickel-in-conc) on care and maintenance would likely lead to an asset impairment in the 1HFY09 accounts. The total writedown of A\$17.8m pre-tax was higher than expected due to the Copernicus impairment (A\$12.2m) being supplemented by an additional A\$5.6m on the Savannah project (a portion of capitalized development costs). However, note that the Savannah writedown was made without reference to the anticipated contribution from PAN’s heavily “in-the-money” hedgebook.
- As a result of the writedowns, the company expects to report **a loss of around A\$10m for 1HFY09** (pcp A\$24m profit).
- At 31 December 2008, PAN held **cash of A\$50m** and total debt of A\$5m (finance leases). This cash balance was well down on the A\$82m reported at the end of the SepQ. The major driver of this drop was a A\$22m tax payment made during the quarter. Capital and exploration expenditure was in-line with expectations and is expected to taper away significantly from this half (Deacon ventilation complete, reduced Savannah UG development, etc). On our current forecasts, we expect the cash balance to be around a similar level at the end of the current half.
- We remind readers our present forecasts for nickel and A\$/US\$ in 2009 are US\$5/lb and 0.67, respectively.** Spot prices currently reside slightly on the ‘favourable’ side of both estimates, at US\$5.30/lb and 0.66, respectively.

Exhibit 1: Panoramic cashflow outlook



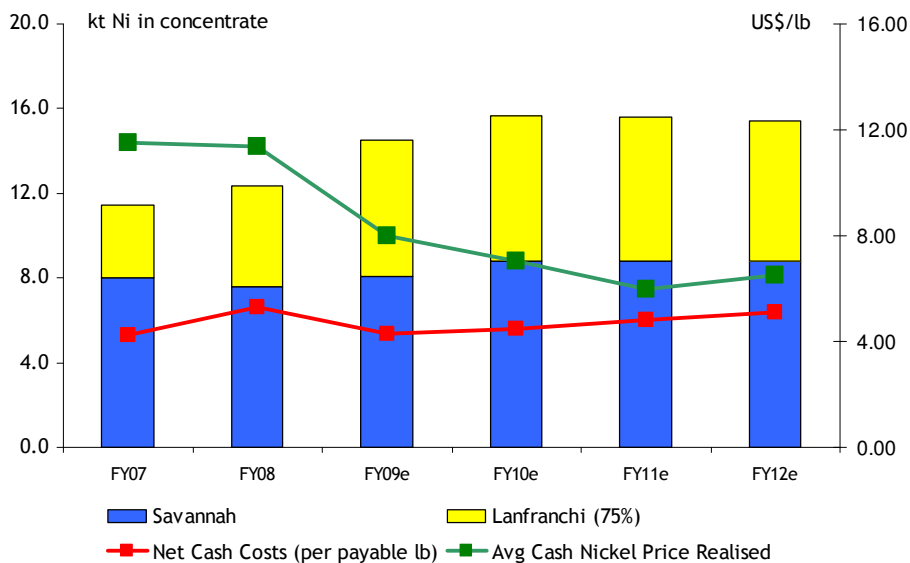
Source: Company data, RBC Capital Markets estimates

- Panoramic is well capitalized and the holder of a nickel/currency hedgebook that is A\$74m in-the-money.** Additionally, PAN’s two operations are comfortably operating cashflow positive even at solely current nickel and A\$/US\$ spot prices (something that cannot necessarily be said about some of its peers).
- PAN’s hedgebook is particularly attractive at present in the sense that it has US\$ Ni forwards at +US\$11/lb but the great majority of its currency hedging is in the form of bought US\$ puts, thus providing it with the upside leverage to the recent A\$ depreciation. On our production estimates, PAN is around 45% hedged on payable nickel in FY09 and around 25% in FY10.

Production and costs outlook

- PAN is the latest in a long list of mining players who have moved aggressively in recent months to curtail spending and trim cost bases. Management has instituted a limited number of redundancies and implemented a 10% salary reduction across all employees. All **discretionary capital projects have been deferred** (the reality is that post recent Deacon ventilation and Savannah decline works, there was nothing further of great significance in the short term) and **exploration spend has been reduced** and more sharply focused.
- Following optimization studies, it has also been decided to move Lanfranchi from a four to a three jumbo operating basis – this is expected to trim forecast Lanfranchi production (100% basis) by 1.0-2.0kt nickel-in-ore this half. Combined with the placing of Copernicus on care and maintenance (previously announced), **revised FY09 equity production guidance is now 15.5-16.5kt contained nickel** (previously 17-18kt). Our forecast again sits just below the bottom of the revised range (15.3kt).
- We have also assumed a three jumbo operating basis moving forward at Lanfranchi which saw cuts to our FY10 and FY11 production expectations. Earnings changes associated with these changes were not overly significant given our forecasts were already below market expectations and our D&A forecasts were also reduced in association with the asset writedowns.

Exhibit 2: The revised group production outlook



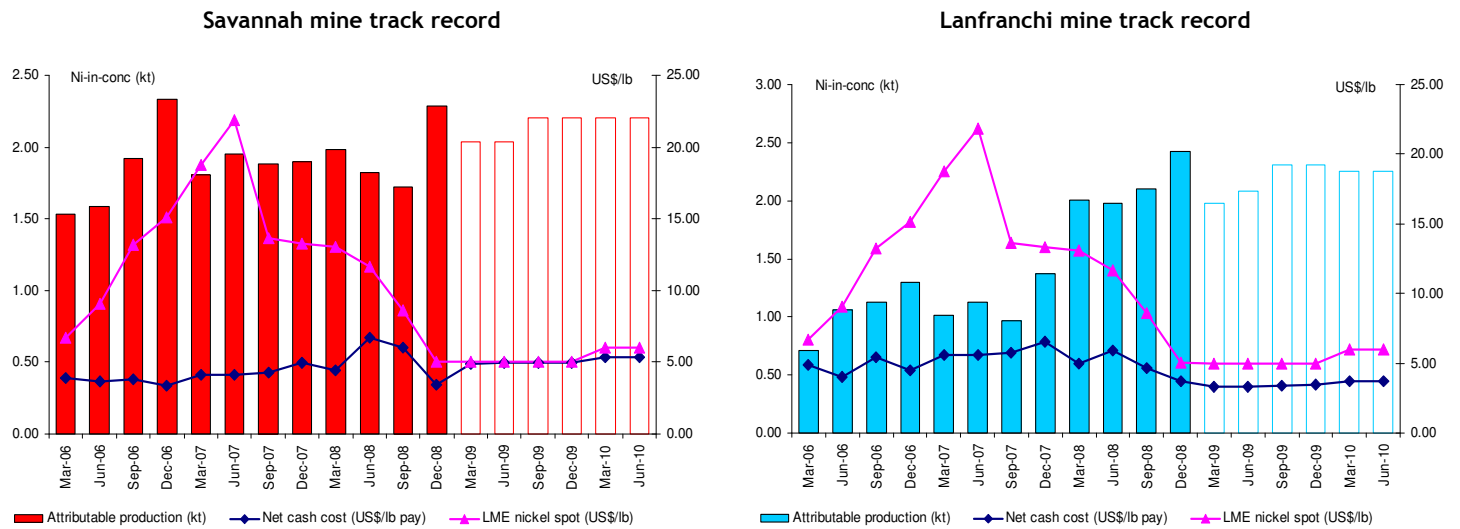
Source: Company data, RBC Capital Markets estimates

- We certainly do not dismiss the capex/exploration deferral measures as having no future negative impact – indeed, in the case of a relatively shorter mine life operator such as PAN, exploration spend and success is a lifeblood and significant share price driver. However, relative to many of its more development-intensive base metal peers, these measures are expected to have significantly lesser impacts on future operating outcomes.
- No comment was made in relation to the interim dividend for this year. We are now forecasting a relatively minor 1cps payout for 1HFY09 but would **highlight the risk of zero dividend should the Board choose to be ultra conservative** in the current environment.

Strong operating quarter

- Record attributable quarterly nickel production of 4.40kt nickel – RBC forecast 4.25kt and SepQ 3.52kt.
- **Savannah** nickel-in-concentrate production of 2.28kt at a cash cost of A\$5.07/lb payable nickel (US\$3.43/lb).
- **Lanfranchi** (PAN 75%) nickel-in-ore production of 2.82kt at a cash cost A\$5.47/lb payable nickel (US\$3.70/lb).
- The increases in nickel head grade at Savannah and ore throughput at Lanfranchi were the key drivers of the strong production result. The Savannah grades are expected to remain at these higher levels (~1.4% Ni) for at least the current quarter. The higher nickel volumes contributed to the **overall reduction in group cash costs of ~15%** from A\$6.06/lb (SepQ) to A\$5.25/lb.

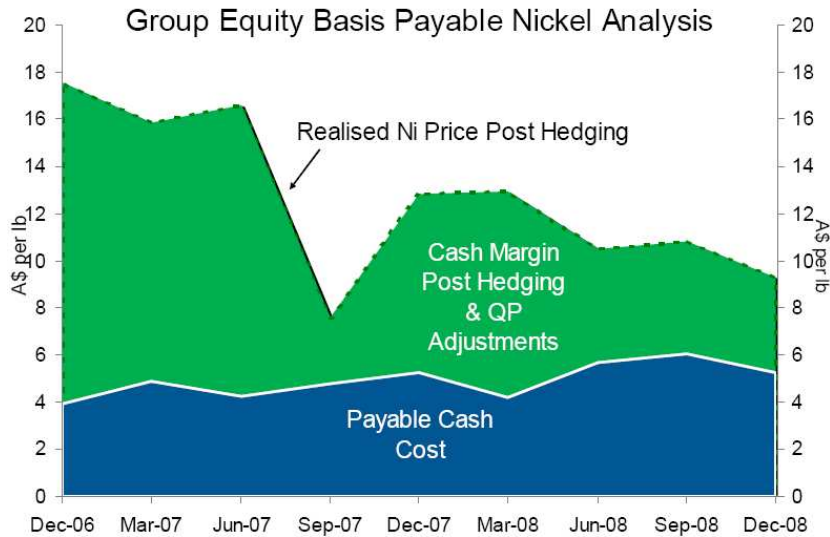
Exhibit 3: Excellent production result



Source: Company data, RBC Capital Markets estimates

- At the critical Deacon deposit (Lanfranchi), raise boring activities were completed and vent fan construction commenced with commissioning expected in late February 2009 (delayed from mid-January). Deacon is now set to become the flagship ore source for the Lanfranchi operation.

Exhibit 4: Historical cash margin analysis

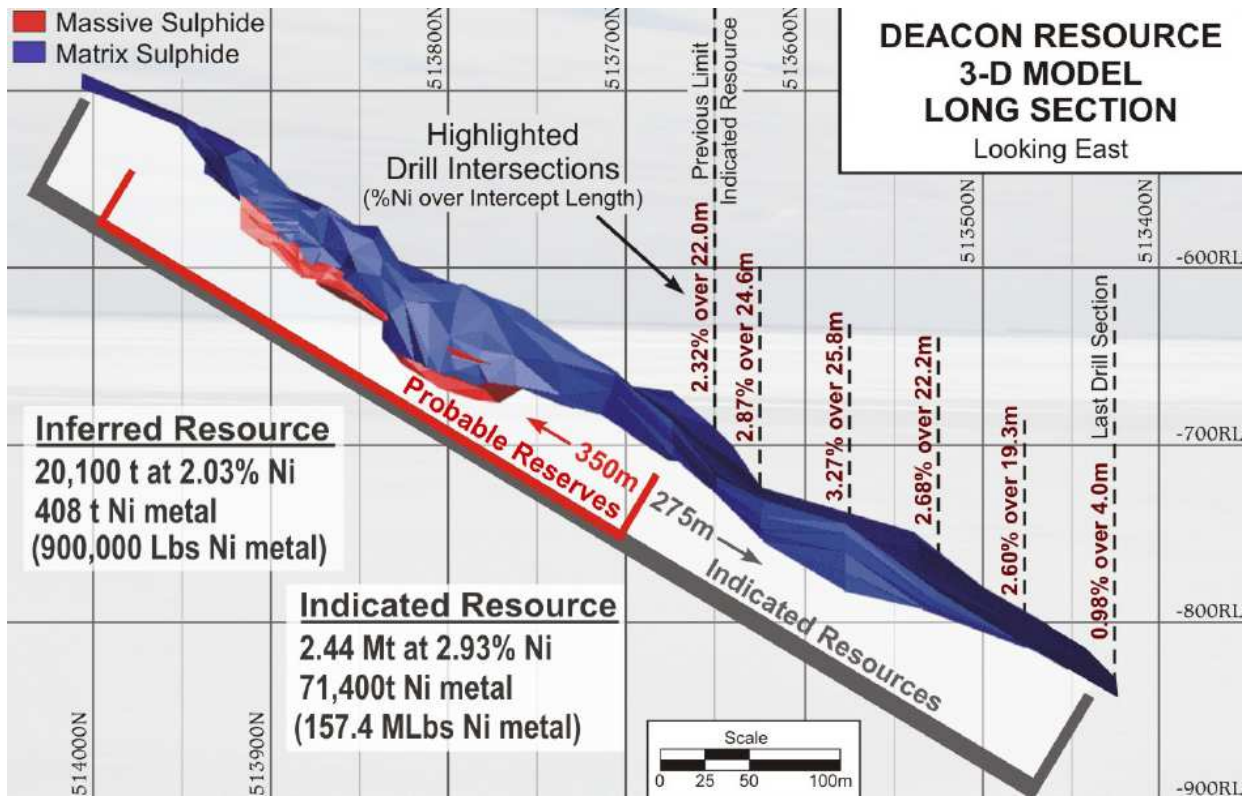


Source: Company reports

Deacon upgrade

- Down-plunge drilling of Deacon was completed during the quarter and resulted in an increased resource of 2.46mt at 2.92% Ni for 71.8kt contained nickel – a 13% increase on the earlier resource estimate. Critically, the increased drill density also enabled the Indicated component of the resource to increase from 51.4kt to 71.4kt.
- However, drill results from the three holes completed effectively at the down-plunge extent of the revised resource indicate either **a change in channel geometry or structural dislocation**. Nonetheless, additional down-plunge drilling is planned to be undertaken during 2009 in search of further extensions to the Deacon orebody.

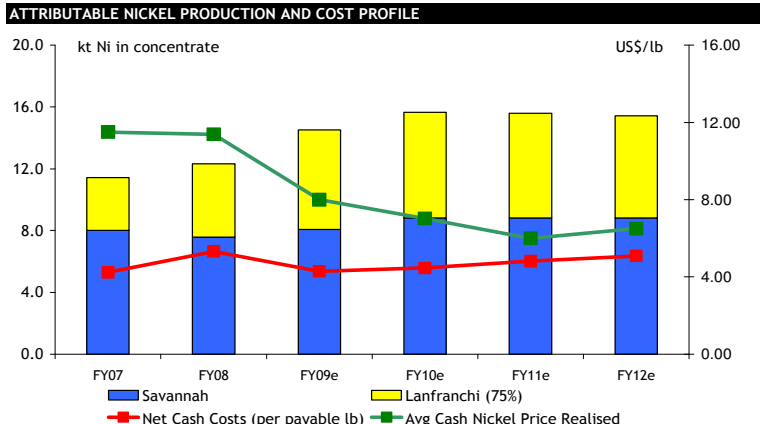
Exhibit 5: The Deacon resource... increased but down-plunge potential now more muted



Source: Company reports

Exhibit 6: Summary financials

Panoramic Resources													
ASX: PAN	Share Price: (A\$ps)	0.90	Year end:	Jun	Stock Rating:	Outperform	Price Target:	A\$1.55					
	Mkt Cap: (A\$MM)	173	Issued shares (m)	193.7	Risk Qualifier:	Above Average	NAV:	A\$1.54					
ASSUMPTIONS						ATTRIBUTABLE MINE STATS							
Exchange Rate	AS/US\$	FY07	FY08	FY09e	FY10e	FY11e	Nickel Production (equity)	FY07	FY08	FY09e	FY10e	FY11e	
Spot Nickel Price	US\$/lb	0.79	0.90	0.73	0.69	0.72	Savannah	kt	8.01	7.58	8.07	8.82	8.82
Spot Cobalt Price	US\$/lb	17.24	12.92	5.92	5.50	6.00	Lanfranchi (75%)	kt	3.42	4.74	6.43	6.84	6.76
Spot Copper Price	US\$/lb	23.39	39.32	21.56	13.00	12.75	Nickel in Concentrate	kt	11.43	12.32	14.51	15.66	15.58
		3.20	3.53	2.17	1.70	1.73	Payable Nickel Production	kt	7.40	7.96	9.37	10.11	10.06
RATIO ANALYSIS						OPERATIONAL EBIT CONTRIBUTION (pre hedging)							
Diluted share capital	MM	FY07	FY08	FY09e	FY10e	FY11e	Payable Nickel Sales Hedged	%	FY07	FY08	FY09e	FY10e	FY11e
EPS (diluted and pre sig. items)	A¢	194.5	193.7	191.9	191.9	191.9	Avg Cash Nickel Price Realised	US\$/lb	11.50	11.38	8.00	7.02	6.00
P/E	x	45.7	27.3	10.7	15.2	0.9	Net Cash Costs (per payable lb)	US\$/lb	4.24	5.32	4.29	4.46	4.82
CFPS	A¢	2.0x	3.3x	8.4x	5.9x	103.2x	Cash Margin	US\$/lb	7.26	6.05	3.71	2.56	
P/CF	x	106.0	49.5	13.0	35.6	16.7							
DPS	A¢	0.8x	1.8x	6.9x	2.5x	5.4x							
Dividend yield	%	12.0	12.0	4.0	7.0	0.0							
Franking Level	%	13.4%	13.4%	4.5%	7.8%	0.0%							
Book value per share		100%	100%	100%	100%	0%							
P/Book value	x	0.63	1.20	1.19	1.28	1.25							
R.O.E. (pre sig items)	%	1.4x	0.7x	0.8x	0.7x	0.7x							
R.O.A. (pre sig items)	%	72%	23%	9%	12%	1%							
Interest Cover	x	44%	20%	9%	12%	0%							
EBITDA per share	A\$ps	252.2x	-14.4x	-13.1x	-20.9x	0.1x							
EV/EBITDA	x	0.86	0.55	0.32	0.38	0.18							
		0.4x	0.7x	2.1x	1.4x	2.7x							
RESERVES AND RESOURCES (ATTRIBUTABLE)													
							Reserves	Mt	% Ni	Ni (kt)			
							Savannah	2.9	1.3%	38			
							Copernicus satellite (60%)	0.5	1.1%	5			
							Lanfranchi (75%)	2.1	2.4%	50			
							Total reserves (kt)	93			EV / Reserves	765	
							Resources	Mt	% Ni	Ni (kt)			
							Savannah	4.7	1.5%	70			
							Copernicus satellite (60%)	0.5	1.2%	6			
							Lanfranchi (75%)	4.0	2.4%	94			
							Total resources (kt)	170			EV / Resources	416	
EARNINGS						EPS SENSITIVITIES							
Sales Revenue	A\$MM	FY07	FY08	FY09e	FY10e	FY11e			FY09e	FY09e	FY10e	FY10e	
Other Revenue	"	299	232	218	251	214	Nickel Price (US\$/lb)	+10%	Acps	%	Acps	%	
Total Revenue	"	0	0	0	0	0		-10%	3.4	32%	5.0	33%	
Operating costs	"	(88)	(108)	(145)	(166)	(169)			(3.4)	-32%	(5.0)	-33%	
Operational EBITDA	"	211	125	73	85	45	A\$/US\$ (USc)	+10%	(0.6)	-6%	(7.8)	-51%	
Exploration Expense/Write-offs	"	(2)	(2)	(3)	(4)	(3)		-10%	7.7	72%	9.5	63%	
Corporate & Other Costs	"	(42)	(15)	(8)	(8)	(8)							
EBITDA	"	167	107	62	73	34							
D&A	"	(42)	(40)	(36)	(35)	(35)							
EBIT	"	125	67	26	38	(0)							
Net Interest	"	(0)	5	2	2	3							
Profit Before Tax	"	125	71	28	40	2							
Tax Expense	"	(36)	(18)	(8)	(11)	(1)							
Minorities	"	0	0	0	0	0							
Net Profit After Tax	"	88	53	21	29	2							
Significant Items (post tax)	"	0	0	(12)	0	0							
Reported NPAT	"	88	53	8	29	2							
CASHFLOW						ATTRIBUTABLE NICKEL PRODUCTION AND COST PROFILE							
Operational Cash Flow	A\$MM	FY07	FY08	FY09e	FY10e	FY11e							
Net Interest	"	206	112	65	77	37	kt Ni in concentrate						
Tax Paid and Other	"	(0)	5	2	2	3							
Net Operating Cashflow	"	0	(22)	(42)	(11)	(7)							
Exploration	"	206	96	25	68	32							
Capital Expenditure	"	(7)	(6)	(10)	(10)	(5)							
Investments	"	(34)	(59)	(63)	(18)	(11)							
Sale of PPE and Other	"	0	0	0	0	0							
Net Investing Cashflow	"	0	0	0	0	0							
Dividends Paid	"	(41)	(65)	(73)	(28)	(16)							
Debt	"	0	(36)	(12)	(12)	(8)							
Equity Issuance	"	(37)	(7)	(3)	0	0							
Other	"	4	4	0	0	0							
Net Financing Cashflow	"	(44)	0	0	0	0							
Net change in cash	"	(77)	(39)	(14)	(12)	(8)							
		89	(9)	(62)	29	8							
BALANCE SHEET						EQUITY DCF VALUATION							
Cash & Equivalents	A\$MM	FY07	FY08	FY09e	FY10e	FY11e	Projects	A\$MM	A\$ps				
PP&E & Mine Development	"	120	111	49	78	86	Savannah	64	0.34				
Exploration	"	112	136	151	134	110	Lanfranchi (75%)	110	0.58				
Total Assets	"	7	13	21	27	29	Projects and Exploration	40	0.21				
Debt	"	284	332	302	320	308	Hedging	63	0.33				
Total Liabilities	"	13	8	6	6	6	Corporate	(26)	-0.14				
Total Net Assets / Equity	"	162	100	74	74	68	Net Cash / (Debt)	44	0.23		P / NPV		
Net Debt / (Cash)	"	(106)	(103)	(43)	(72)	(80)	Net Equity Value (@ 8% real d.r.)	296	1.54		0.6x		
Gearing (net debt/(nd + equity))	%	(694%)	(79%)	(23%)	(41%)	(50%)							
Gearing (net debt/equity)	%	(87%)	(44%)	(19%)	(29%)	(33%)							



Source: Company data, RBC Capital Markets estimates

Valuation

RBC's price target of A\$1.55 is based on 3.0-3.5x estimated FY10 EBITDA. These multiples are broadly in-line with the presently wide range of Australian junior nickel peer comparables.

Price Target Impediment

Potential impediments to our price target include: (1) Nickel price risk - a weakening in nickel prices would adversely affect earnings; (2) Currency risk - a strengthening of the A\$/US\$ rate would adversely affect earnings; (3) Development risk – there are risks in the development of both new and existing orebodies; (4) Operating cost risk - increases in key operating inputs (energy and labour costs) would adversely affect earnings.

Company Description

Sally Malay owns and operates two nickel operations in Western Australia and produced 11.4kt attributable nickel-in-concentrate in FY07. The Sally Malay underground mine (100%) is located in the Kimberley region and produced over 8.0kt nickel-in-concentrate in FY07. It is a nickel-copper-cobalt ore-body with significant by-product cost credits and solid extension potential at depth. The nickel concentrate product is currently sold to Chinese nickel producer, Jinchuan. The Lanfranchi underground mine (75%) is located near Kambalda and produced 3.4kt nickel-in-concentrate in FY07. Ore is mined and sold directly to BHP Billiton, inclusive of a toll treatment arrangement at BHP Billiton's Kambalda nickel concentrator.

We expect Sally Malay's attributable nickel production base to grow from 11.4kt in FY07 to over 15.5kt in FY10, predominantly driven by mining of the recently discovered Deacon ore-body at Lanfranchi. Significant further exploration potential remains at Lanfranchi (and the Tramways tenements) and Sally Malay (at depth and satellite ore-bodies).

Required Disclosures

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Outperform (O): Expected to materially outperform sector average over 12 months.

Sector Perform (SP): Returns expected to be in line with sector average over 12 months.

Underperform (U): Returns expected to be materially below sector average over 12 months.

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Average Risk (Avg): Volatility and risk expected to be comparable to sector; average revenue and earnings predictability; no significant cash flow/financing concerns over coming 12-24 months; fairly liquid.

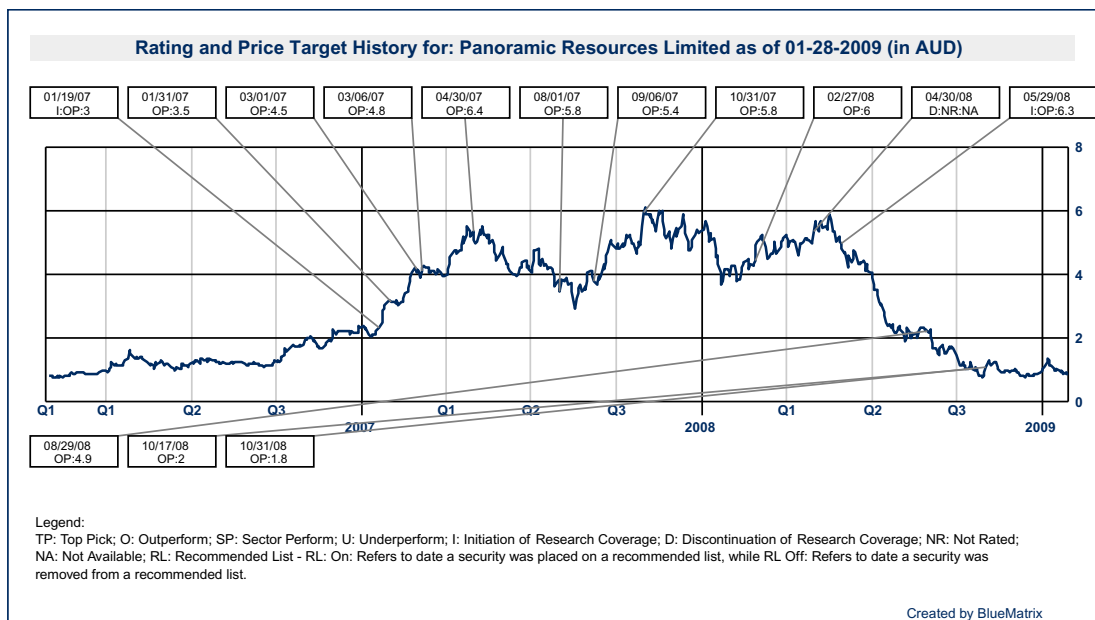
Above Average Risk (AA): Volatility and risk expected to be above sector; below average revenue and earnings predictability; may not be suitable for a significant class of individual equity investors; may have negative cash flow; low market cap or float.

Speculative (Spec): Risk consistent with venture capital; low public float; potential balance sheet concerns; risk of being delisted.

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Rating	Count	Percent	Investment Banking Serv./Past 12 Mos.	
			Count	Percent
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HOLD[SP]	514	46.00	95	18.48
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