



Panoramic BUY

Current Price: **\$1.04**
Valuation: **\$1.70**

Ticker: **PAN**
Sector: **Materials**

Shares on Issue (m): **204.0**
Market Cap (\$m): **211.1**
Net Cash (\$m): **45.5**
Enterprise Value (\$m): **165.6**

52 wk High/Low: **\$6.14** **\$0.71**
12m Av Daily Vol (m): **1.23**

Key Metrics

	08A	09F	10F
P/E (x)	3.8	23.7	5.4
EV/EBITDA (x)	1.5	3.2	1.7

Financials:

	08A	09F	10F
Revenue (\$m)	232.4	249.6	293.0
EBIT (\$m)	72.8	-10.4	55.6
NPAT (\$m)	53.4	-7.3	39.2

Net Assets (\$m)	231.7	210.5	235.5
Op CF (\$m)	89.8	38.0	104.1

Per Share Data:

	08A	09F	10F
EPS (cps)	27.6	4.4	19.1
DPS (cps)	12.0	7.0	7.0
Div Yield	11.6%	6.8%	6.8%
CFPS (cps)	46.4	18.5	50.6

Share Price Graph



Analyst:
Troy Irvin

26 March 2009

Brilliant timing

Disciplined cost cutting, well timed deal-making and a robust balance sheet are keeping Panoramic (PAN) in the nickel sulphide game at a time when many base metals peers are floundering.

The recent purchase of Brilliant Mining's 25% interest in Lanfranchi brings PAN's ownership of the project to 100%. Details of the transaction are:

- Consideration – 12m fully paid ordinary shares in PAN (escrowed for six months from the date of issue) and 3m unlisted, non-transferable options (exercise price \$1.50, expiry 31 December 2012)
- Effective date – 1 November 2008
- Major conditions precedent – Completion of financial due diligence on Donegal, and Brilliant shareholder approval

The deal has added \$46m or 12cps to Argonaut's valuation. The timing of the deal is exemplary – PAN knows the asset better than anyone and has pounced with the nickel price at the lowest level in 5½ years.

With the consolidation of Lanfranchi ownership (subject to Brilliant shareholder approval and based on the effective date of 1 November 2008), PAN expects its equity share of forecast production for FY09 to be in the range of 17-18kt contained nickel (Figure 1).

PAN's efforts to reduce costs are reaping rewards. Group operating cash costs were A\$5.25/lb payable in the December Q compared to a price received of >A\$9/lb (Figure 2). Initiatives include 10% pay cuts across all staff, milling at Savannah for just 15 out of every 21 days, parking up one jumbo at Lanfranchi, reducing the use of contractors and reducing discretionary expenditure.

Strong news flow is expected including: April – Deacon ore reserve estimate (Figure 3), April Q – update on cost cutting initiatives, May – signing of the Brilliant deal, June – Savannah Deeps mineral resource upgrade, and September / October – Savannah Deeps ore reserve upgrade.

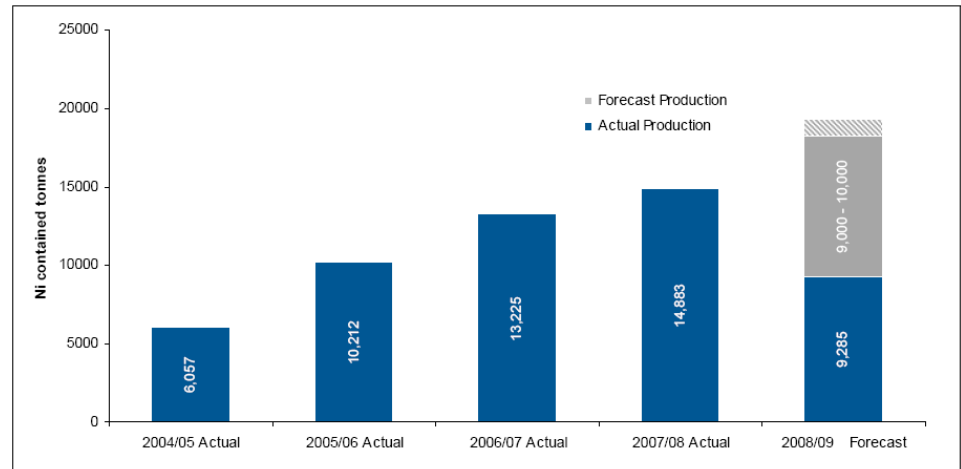
Despite the December H accounting loss PAN retains several positive characteristics which are expected to return the business to profitability:

- \$50m cash and no bank debt
- Meaningful cost reduction initiatives underway
- No large capital expenditure items on the horizon
- Mine life building to >10 years
- 'Best on ground' hedge book - \$74m in the money (Figure 4)

At current nickel prices PAN (and peers) have a tough job battling thin margins. However PAN's production profile makes the stock highly leveraged to the eventual recovery / stabilisation of nickel prices. Lesser managed, stressed companies are selling good projects, while PAN is a buyer.

BUY

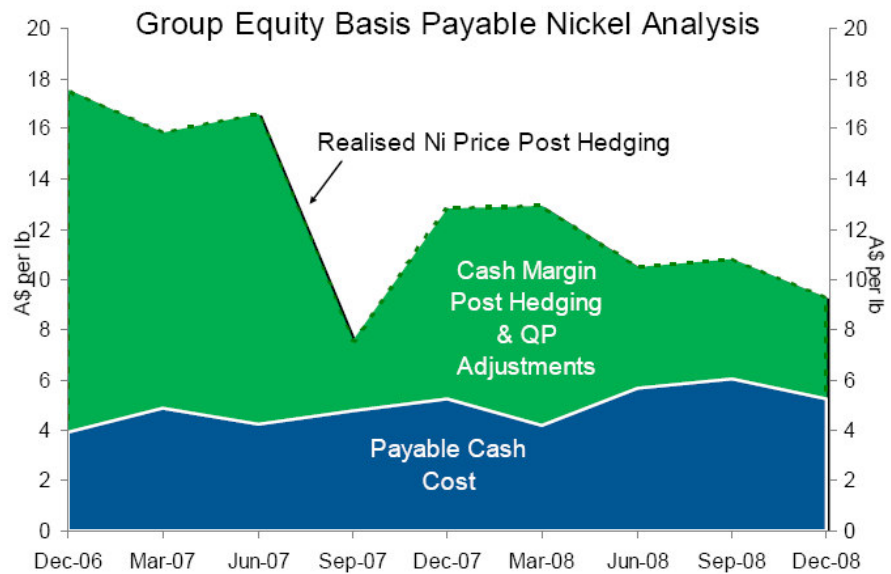
Figure 1: Production outlook



Notes
 1. Savannah production is based on Ni in concentrate (PAN owns 100% of Savannah)
 2. Lanfranchi production is based Ni in ore (PAN owning 75% of Lanfranchi to 31 Oct 2008, and 100% following the purchase of the remaining 25% of the project)
 3. 2008/09 Forecast is based on Deacon ventilation system commissioning in late February 2009 and 3 Jumbo operating scenario

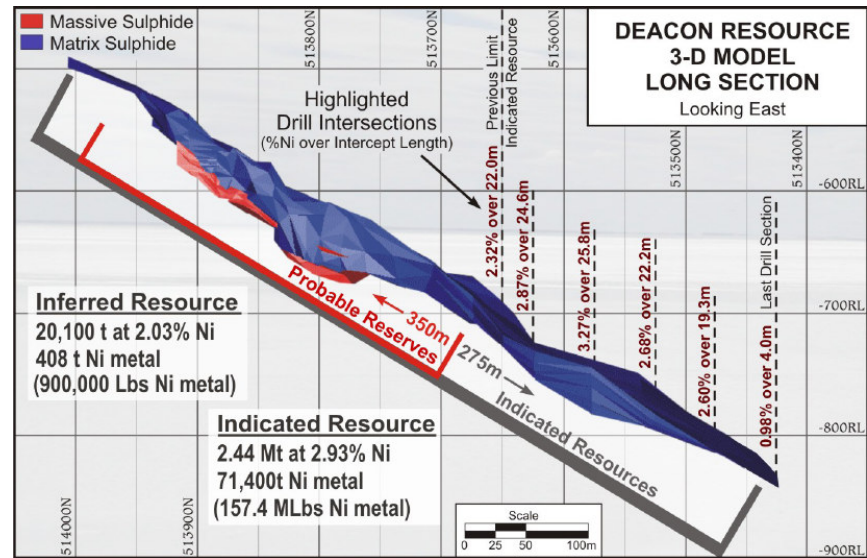
Source: PAN

Figure 2: Cash margin and payable costs



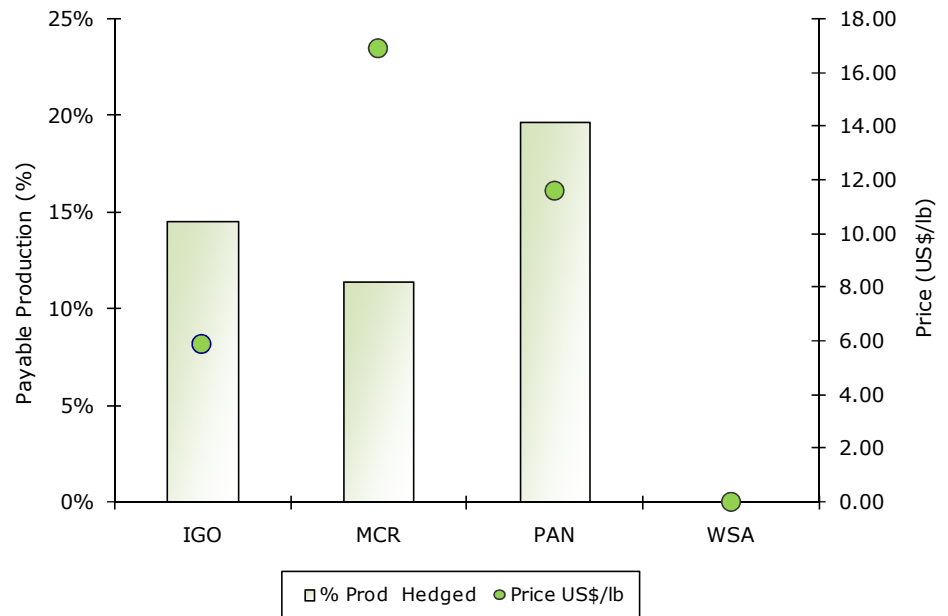
Source: PAN

Figure 3: Deacon 3-D model long section



Source: PAN

Figure 4: Nickel forwards - % payable production hedged to June 2010



Source: Argonaut

Panoramic

Recommendation BUY
Current Price \$1.04
Valuation \$1.70
All Ords (XAO) 3,594

Sector Materials
Issued Capital (m) 204.0
Market Cap (m) \$211.1
Updated 26-March-2009

Profit & Loss (\$m) 30 June	2008A	H109A	2009E	2010E
Sales Revenue	232.4	113.3	249.6	293.0
Other Income	6.1	1.2	2.6	4.9
Operating Costs	109.5	65.0	158.7	186.3
Deprn & Amort	40.4	26.9	61.6	41.1
Exploration Exp.	2.2	5.8	6.9	2.6
Corporate/Admin	10.0	6.0	12.1	12.3
Derivatives Loss / Impairment of assets	3.5	23.2	23.2	0.0
EBIT	72.8	-12.5	-10.4	55.6
Interest Paid	1.3	0.3	0.4	-0.6
Operating Profit	71.5	-12.8	-10.8	56.2
Tax expense	18.1	-4.1	-3.6	16.9
Minorities	0.0	0.0	0.0	0.0
NPAT	53.4	-8.7	-7.3	39.2
Normalised NPAT	53.4	7.6	9.0	39.2

Cash Flow (\$m)	2008A	H109A	2009E	2010E
Operating Cashflow	89.8	(3.5)	38.0	104.1
- Capital Expenditure	55.6	43.8	58.0	15.3
- Exploration & Evaluation	6.2	0.8	3.0	5.1
- Asset Purchases (+ Asset Sales)	(2.4)	(0.2)	(0.2)	0.0
Free Cashflow	30.4	(47.9)	(22.8)	83.7
- Dividends (ords & pref)	36.1	9.6	17.3	12.2
+ Equity Raised	3.6	0.1	0.1	0.0
+ Debt Drawdown (Repaid)	(6.6)	(3.9)	(3.9)	0.0
- Other	0.0	0.0	0.0	0.0
Net Change in Cash	(8.6)	(61.3)	(43.9)	71.5
Cash at end period	110.9	49.6	67.0	138.5

Balance Sheet (\$m)	2008A	2009E	2010E
Cash	110.9	67.0	138.5
Total Assets	332.1	280.2	346.5
Total Debt	8.4	-3.2	-18.7
Total Liabilities	100.4	69.7	111.0
Shareholders Funds	231.7	210.5	235.5

Production Summary	2008A	2009E	2010E
Savannah (kt)	7.6	7.8	7.5
Lanfranchi (kt) (attributable)	5.5	10.1	11.8
Total Nickel Production	13.1	17.9	19.3
By-product Copper Production	4.5	4.7	4.8
By-product Cobalt Production	0.4	0.4	0.4
Ni Cash Cost - net of credits (US\$/lb)	5.30	4.45	5.07
Ni Price Realised (US\$/lb)	11.88	6.86	7.62

Reserves & Resources Attributable to PAN	Mt	Grade	Ni (kt)
Nickel Reserves			
Sally Malay Project	2.79	1.32	36.8
Lanfranchi - Deacon	1.70	2.54	43.1
Lanfranchi - Winner	0.14	4.26	6.1
Lanfranchi - Other	0.53	2.30	12.2
Copernicus	0.47	1.10	8.5
Total Reserves	5.63	1.89	106.7
Nickel Resources			
Sally Malay Project	4.74	1.48	70.3
Lanfranchi - Deacon	2.46	2.92	71.8
Lanfranchi - Winner	0.11	6.16	6.9
Lanfranchi - Other	2.80	1.78	49.8
Copernicus	0.51	1.24	6.3
Total Resources	10.62	1.93	205.1

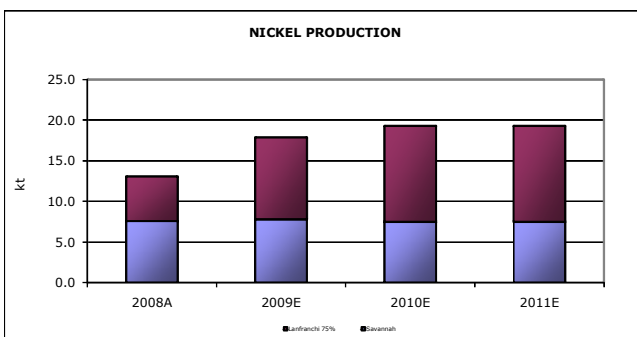
Financial Summary	2008A	2009E	2010E
Reported Earnings			
Net Profit (\$m)	53.4	(7.3)	39.2
EPS (cents)	27.6	(3.5)	19.1
PER (x)	3.8	(29.3)	5.4
Normalised Earnings			
Net Profit (\$m)	53.4	9.0	39.2
EPS (cents)	27.6	4.4	19.1
EPS Growth (%)	(39.2)	(84.1)	336.2
PER (x)	3.8	23.7	5.4
Cashflow			
Operating Cashflow (\$m)	89.8	38.0	104.1
GCFPS (cents)	46.4	18.5	50.6
PCF (x)	2.2	5.6	2.0
Dividend			
Dividend (cents)	12.0	7.0	7.0
Yield (%)	11.6	6.8	6.8
Franking (%)	100	100	100

Financial Ratios	2008A	2009E	2010E
Balance Sheet Ratios			
Total Debt / Equity (%)	3.6	-1.5	-7.9
Interest Cover (x)	54.3	-24.3	-96.9
Acid test ratio (x)	2.2	2.0	1.8
Profitability Ratios			
Net Profit Margin (%)	23.0	3.6	13.4
Return on Assets (%)	32.9	-4.9	26.7
Return on Equity (%)	23.0	-3.5	16.7

Valuation Summary	A\$m	A\$/sh
Savannah	124.7	0.61
Lanfranchi	172.5	0.84
Forwards	42.4	0.21
Corporate	-45.5	-0.22
Cash (31 December)	50.0	0.24
Debt	-4.5	-0.02
Exploration	10.0	0.05
Unpaid capital	0.0	0.00
Listed Investments	0.2	0.00
Total @ 10% discount rate	350	1.70

Directors	
C J G 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	%
J P Morgan Nominees	20.3
National Nominees	14.7
HSBC Custody Nominees	13.1
ANZ Nominees	12.8
Barclays	6.3
Eley Griffiths	5.3



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