

# Panoramic Resources Limited

## March Quarterly – Costs Reduce, Upgrade To HOLD



Wilson HTM  
INVESTMENT GROUP

2 May 2009

**\$1.51**

**HOLD**

Keith Williams

03 9640 3802

keith.williams@wilsonhtm.com.au

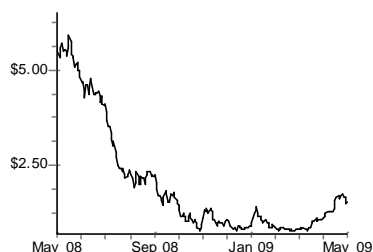
### Recommendation

PAN's March quarterly revealed the impact of cost cutting measures, with aggregate site costs around \$5m lower than the Dec quarter even though the majority of cost savings were effective for only two months of the quarter. On a unit cost basis, we expect cash costs to fall slightly further for Lanfranchi with the benefit of increasing production, but remain around March levels for Savannah assuming constant by-product credits and royalty values. We have reduced costs over the next 18 months to these levels. As a result our DCF valuation increases to \$1.66/share (+0.25/share), target increases to \$1.39/share (+0.17/share). We have upgraded our recommendation to HOLD with the stock now trading within 10% of our upgraded target price. We note that while the nickel price continues to trade above forecast, LME stockpiles continue to increase and with unhedged margins still thin we remain concerned about the potential for a renewed period of nickel price weakness.

### Key Points

- Savannah produced 1,847t of nickel in concentrate during the March quarter, representing a 20% reduction compared to the Dec quarter. The significant fall in production was due to the lower nickel grade. The nickel grade in the March quarter was 1.23% vs Dec quarter of 1.43%. Based on the improved nickel grade in April, PAN anticipates the nickel grade will be ~1.3% during the June 2009 quarter.
- The Savannah payable operating cash cost, excluding capital development increased to \$5.63/lb in the March quarter, an 11% increase on a q-o-q basis.
- Lanfranchi's March quarter production and operating cost were similar to the Dec quarter. Lanfranchi produced 2,702t of nickel in ore in the March quarter vs 2,802t in the Dec quarter. Payable operating cash cost, excluding the cost of capital development, was A\$5.46/lb in the March quarter vs A\$5.47/lb in the Dec quarter.
- The group payable cash cost of production was A\$5.55/lb vs A\$5.25/lb in the Dec quarter, to which must be added the capital development unit cost which was A\$0.78/lb vs A\$1.18/lb in the March quarter for a total production cost of \$6.33/lb (US\$4.45/lb).
- PAN has agreed to purchase Donegal Resources Pty Ltd, the company which has the remaining 25% interest in the Lanfranchi Project. The effective transaction date is 1<sup>st</sup> November 2008. The acquisition will be paid for by issuing 12 million shares and 3 million unlisted options (exercise price of A\$1.50, expiry 31<sup>st</sup> Dec 2012) to Brilliant Mining Corp, which has 100% of Donegal Resources Pty Ltd. The transaction is subject to Brilliant shareholders' approval and due diligence on Donegal Resources. The transaction is expected to be completed by 19<sup>th</sup> May 2009.
- PAN has stated that its cost reduction program is proving effective. Aggregate site cost has reduced by A\$5m in the March quarter compared to the Dec quarter, representing a A\$0.80/lb reduction in payable nickel cost on an annualised basis. PAN anticipates the cost reduction program to be fully reflected in the June quarter.
- Mining studies have resulted in the Deacon ore reserve (probable category) at Lanfranchi increasing by 29% to 63,100t of contained nickel (2.5Mt @ 2.52%) Subject to favourable economics, mine life should now extend to beyond 2016 which is in keeping with our forecast of reserve exhaustion in mid 2017.
- Drilling of the Lower Zone at Savannah returned excellent results, including 188.9m at 1.67% Ni and 73.5m at 1.82% Ni. Based on current geological information, Savannah mineralisation appears to continue below the current 900m depth of drilling. A resource upgrade is expected in the June 2009 quarter.
- PAN purchased US\$70m of US\$ puts at an exercise price of US\$0.73 in February. The value of PAN's hedge book was A\$73.8m at 31<sup>st</sup> March 2009. Total cash and receivables were A\$66m, down A\$4m over the quarter.
- The unit cash cost at Savannah was materially lower than our forecast for the June half with Lanfranchi 9% lower. We have reduced costs to be consistent with these levels over the next few half years where our forecasts have typically been higher.

### Price Performance



### Security/Capital Details

ASX Code	PAN
Market Cap	\$318 M
Issued Shares (dil)	208.7 M
Avg Mth T'over	28.60 M
12 Mth High – Low	\$5.91 - \$0.75

### Key Data/Ratios – FY 2009

EBITDA / Sales	39.2%
EBIT / Sales	11.7%
Debt / Equity	1.8%
Interest Cover	44.8 x
ROE	9.1%
EPS Growth	-62.8%
DCF	\$1.67
12 Mth Price Target	\$1.39

BUY: Total return +10% or more over a 12 month period

HOLD: Total return expected to be between +10% to -10% over a 12-month period

SELL: Total return expected to be -10% or more over a 12 month period

TOTAL RETURN OR TSR = capital growth in share price + expected dividend yield in that period

Year to June	NPAT (Rep) \$M	NPAT (PSig) \$M	EPS (PSig) c	EPS Growth %	PER x	CFPS c	P/CF x	DPS c	Div Yld %	Franking %
2008a	53.3	58.0	27.9	-35.3	5.5	46.1	3.3	12.0	7.9	100
2009e	4.0	21.6	10.4	-62.8	14.7	23.2	6.6	2.0	1.3	100
2010e	40.1	40.1	19.2	85.4	7.9	41.4	3.7	10.0	6.6	100
2011e	28.5	28.5	13.7	-28.9	11.2	33.3	4.6	7.0	4.6	100

## Panoramic Resources Limited (PAN : \$1.51)

## PRODUCTION

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Contained Nickel (kt)	11.9	13.1	17.3	21.4	22.9
Contained Copper (kt)	4.0	4.5	4.7	5.4	6.0
Contained Cobalt (kt)	0.4	0.4	0.4	0.5	0.6

## PRICES

Yr Ending June	2007A	2008A	2009E	2010E	2011E
AUDUSD (USD)	0.79	0.90	0.74	0.68	0.67
Nickel (US\$/lb)	17.03	12.95	5.71	4.25	4.89
Copper (US\$/lb)	3.23	3.53	2.09	1.57	2.20
Cobalt (US\$/lb)	21.45	37.10	21.39	16.00	18.50

## INVESTMENT &amp; VALUATION FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Before Abs (c)	43.1	27.9	10.4	19.2	13.7
EPS Growth (%)	N/A	-35.3%	-62.8%	85.4%	-28.9%
PER (x)	9.6	5.5	14.7	7.9	11.2
CFPS (c)	99.5	46.1	23.2	41.4	33.3
P/CF (x)	4.2	3.3	6.6	3.7	4.6
EV/EBITDA (x)	4.4	2.0	3.0	1.9	2.0
DPS (c)	12.0	12.0	2.0	10.0	7.0
Yield (%)	2.9%	7.9%	1.3%	6.6%	4.6%
Franking (%)	100%	100%	100%	100%	100%

## DCF VALUATION

Yr Ending June	@ 10.5%		@ 10.0%	
	A\$m	A\$ps	A\$m	A\$ps
Savannah	24.2	0.12	24.5	0.12
Lanfranchi	130.7	0.63	133.1	0.64
Corporate Costs Capitalised	-32.9	-0.16	-33.5	-0.16
Hedge Book	39.5	0.19	39.6	0.19
Interests - Other Entities	1.2	0.01	1.2	0.01
Exploration/Dev Portfolio	70.0	0.34	70.0	0.34
Franking Credits	37.9	0.18	38.5	0.18
Cash	75.3	0.36	75.3	0.36
Interest Bearing Liabilities	-4.5	-0.02	-4.5	-0.02
Minorities	0.0	0.00	0.0	0.00
Additional Capital - Dilution	6.4	0.03	6.5	0.03
Total Valuation - Diluted	347.8	1.67	350.7	1.68

## PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	24.5%	30.2%	11.7%	24.8%	16.8%
ROA (%)	N/A	36.4%	10.3%	21.8%	15.9%
ROE (%)	N/A	32.7%	9.1%	15.4%	10.1%
ROFE (%)	N/A	96.9%	16.1%	32.3%	24.8%

## INTERIMS (\$m)

Half Yr	Dec 07	Jun 08	Dec 08	Jun 09	Dec 09
Yr Ending June	1H A	2H A	1H A	2H E	1H E
Sales Revenue	121.0	111.4	110.7	99.1	111.1
EBIT	43.8	26.5	8.2	16.3	26.8
Net Profit	24.4	29.0	-8.6	12.6	20.1
EPS	15.8	12.2	4.3	6.0	9.7

## BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	119.6	110.9	75.3	128.8	166.1
Total Assets	283.7	332.1	330.0	356.9	370.9
Debt	13.1	8.4	4.5	4.5	4.5
Total Liabilities	161.8	100.4	83.7	82.7	80.7
Total Shareholders Equity	121.8	231.7	246.3	274.2	290.1
Total Funds Employed	15.3	129.2	175.5	149.8	128.6

## LIQUIDITY &amp; LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Debt / Equity (%)	10.8%	3.6%	1.8%	1.7%	1.6%
Gearing (%) <sup>1</sup>	9.7%	3.5%	1.8%	1.6%	1.5%
Interest Cover (x)	254.2	-15.2	-7.1	-13.4	-5.9
Debt / CashFlow (x)	0.1	0.1	0.1	0.1	0.1
(Debt+CNNotes) / CashFlow	0.1	0.1	0.1	0.1	0.1

## PROFIT &amp; LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	510.5	232.4	209.8	211.5	205.0
EBITDA	167.0	110.7	82.2	99.7	77.4
Depn and Amortisation	41.9	40.4	57.7	47.2	42.9
EBIT	125.1	70.3	24.5	52.5	34.5
Net Interest Expense	-0.1	5.2	3.5	3.9	5.9
Pre-tax Profit	124.6	74.9	27.9	56.5	40.3
Tax	36.5	16.9	6.3	16.3	11.8
Tax rate (%)	29.3%	22.5%	22.5%	28.9%	29.3%
Minorities / pref divs	0.0	0.0	0.0	0.0	0.0
Equity accounted NPAT	0.0	0.0	0.0	0.0	0.0
Net Profit	88.1	58.0	21.6	40.1	28.5
Abnormals	0.0	-4.7	-17.7	0.0	0.0
Reported Net Profit	88.1	53.3	4.0	40.1	28.5

## CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Operating Cash Flow	203.3	95.8	48.5	86.3	69.5
Capital Expenditure	-9.8	-22.2	-23.1	-1.3	-1.3
Expln, Develop, Evaln	-22.8	-39.6	-45.7	-19.2	-18.4
Asset Sales/Acquisitions	-4.2	-3.7	0.0	0.0	0.0
Other	-0.8	0.0	0.0	0.0	0.0
Investing Cash Flow	-37.6	-65.4	-68.8	-20.5	-19.7
Share Issues/(Buybacks)	3.9	3.6	0.1	0.0	3.8
Debt Drawdown (Repay)	-36.6	-6.6	-3.9	0.0	0.0
Dividends Paid	0.0	-36.1	-11.5	-12.2	-16.4
Other Fin. Flows	-44.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-76.8	-39.1	-15.3	-12.2	-12.6
Cash Increase (Decrease)	88.9	-8.7	-35.7	53.6	37.2

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2007A	2008A	2009E	2010E	2011E
+/- 1c Movement US\$/A\$	0.0	0.0	4.6	6.9	10.0
+/-10% Ni Price Change	0.0	0.0	65.4	23.0	50.5
+/-10% Change In Costs	0.0	0.0	46.6	24.9	41.0

1. Gearing = (Debt + CNotes) / (Debt + CNotes + Equity)

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BRISBANE  
Ph: 07 3212 1333  
Fax: 07 3212 1399

SYDNEY  
Ph: 02 8247 6600  
Fax: 02 8247 6601

MELBOURNE  
Ph: 03 9640 3888  
Fax: 03 9640 3800

GOLD COAST  
Ph: 07 5509 5500  
Fax: 07 5509 5599

DALBY  
Ph: 07 4660 8000  
Fax: 07 4662 4169

HERVEY BAY  
Ph: 07 4197 1600  
Fax: 07 4197 1699

TOWNSVILLE  
Ph: 07 4725 5787  
Fax: 07 4725 5104

GEELONG  
Ph: 03 5225 1500  
Fax: 03 5225 1599

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