



## Panoramic BUY

Current Price: **\$2.65**  
Valuation: **\$2.85**

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

Shares on Issue (m): **204.0**  
Market Cap (\$m): **540.5**  
Net Cash (\$m): **55.5**  
Enterprise Value (\$m): **485.0**

52 wk High/Low: **\$4.71** **\$0.71**  
12m Av Daily Vol (m): **1.36**

### Key Metrics

	08A	09F	10F
P/E (x)	9.6	31.2	10.7
EV/EBITDA (x)	4.3	8.7	4.2

### Financials:

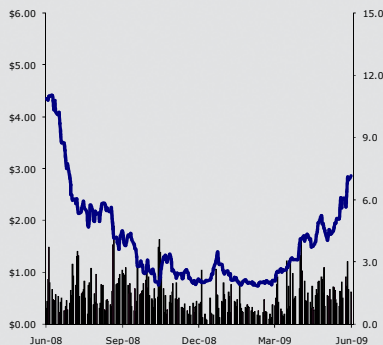
	08A	09F	10F
Revenue (\$m)	232.4	247.7	303.0
EBIT (\$m)	72.8	2.9	73.1
NPAT (\$m)	53.4	1.2	51.0
Net Assets (\$m)	231.7	219.8	256.5

Op CF (\$m) 89.8 40.2 125.9

### Per Share Data:

	08A	09F	10F
EPS (cps)	27.6	8.5	24.8
DPS (cps)	12.0	7.0	7.0
Div Yield	4.5%	2.6%	2.6%
CFPS (cps)	46.4	19.6	61.2

### Share Price Graph



Analyst:  
Troy Irvin

**16 June 2009**

## Savannah site visit

Late last week Argonaut visited Panoramic's (PAN) Savannah nickel mine in the East Kimberley. Key observations:

- Quality site management team
- Consistent production - Steady ore tonnes, steady grade, and steady metal output
- Improved margins due to cost reductions / productivity initiatives
- Increased mine life (>10 years) with Lower Zone Feasibility Study / Ore Reserve expected September / October

A tough but necessary approach to cost cutting has enabled the 1.3% Savannah mine to survive recent rock bottom nickel prices. Measures implemented include a 28% reduction in the workforce (300 to 217 people), a 10% salary reduction, a review of suppliers and consultants pricing, and implementation of campaign milling (now 15 days out of 21). Examples of the benefits achieved include a reduction in the monthly cost of power from ~\$1.2m to ~\$0.7m and a reduction in the monthly cost of contractor services from ~\$1.4m to ~\$0.8m.

Opportunities include following up the recent intersection of mineralisation below the Lower Zone resource (indicating the "Deeps" is open at depth), and a focused exploration effort along the margin of the Savannah intrusion adjacent to the Upper Zone - with the decline already installed this could fill the mill, and lower unit costs, for limited capital expenditure.

Risks include working in heat issues in the wet season as the mine gets deeper, increased reliance on the paste filling schedule, and mining through the 500 fault.

Argonaut expects 7.8kt Ni from Savannah in FY09, with production in the Dec H 2010 underpinned by a bulk ~1.4% stope. In terms of costs, the June Q will provide a good indication of progress - Argonaut expects a cash margin of at least A\$4/lb.

PAN offers:

- >\$50m cash and no bank debt
- Meaningful cost reduction initiatives underway
- No large capital expenditure items on the horizon
- >10 year mine life
- \$75m in the money hedge book (March 31)

A tangible 20ktpa production goal from Savannah and the sister Lanfranchi site makes PAN highly leveraged to the eventual recovery of nickel prices. Argonaut's FY09F NPAT claws back to breakeven following the \$8.6m loss for the December half.

## BUY

## Savannah site visit

### Argonaut visited the Savannah mine late last week

Savannah is a Ni-Cu-Co project located 240 km south of Kununurra in the East Kimberley, Western Australia. Argonaut visited the mine late last week. The tour was led by Peter Harold (Managing Director) and Terry Strong (Operations Manager - Savannah).

### Mining

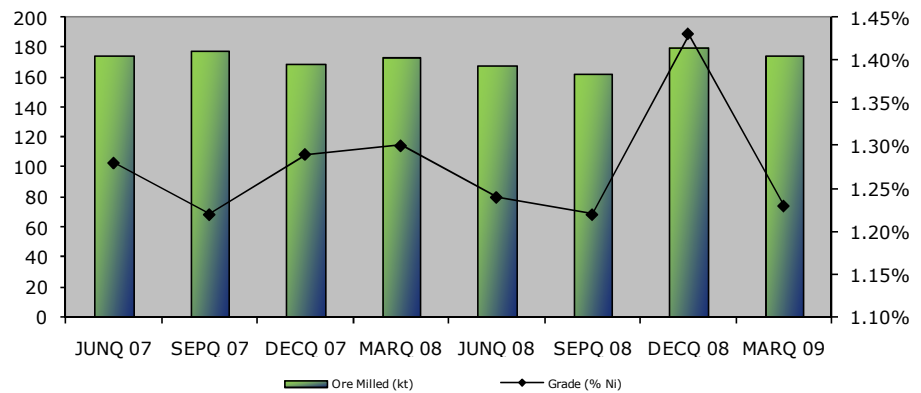
After starting an open pit in August 2004 Savannah has been mining underground using the long hole open stoping method since January 2006.

Paste fill has been employed to fill the open voids since October 2007. Although paste adds ~\$10/t to the mining cost it enables near 100% reserve extraction, improves ground conditions and reduces the volume of tailings sent to the tailings dam.

The best mines offer consistent production results i.e. steady ore tonnes, steady grade, and steady metal output. Savannah is proving to be such a mine, delivering 720ktpa ore at an average grade of 1.3% Ni.

### The underground mine is delivering consistent production results...

Figure 1: Savannah 2 year ore tonnes and grade



Source: Argonaut

### ...underpinned by bulk stoping opportunities and appropriate decline advance rates

Production is underpinned until November by a bulk 1.4% stope yielding approximately 9,000t of ore per ring. The decline face is currently at ~480m below surface and present advance rates will maintain timely access to future stoping blocks.

Figure 2: Bottom of Savannah decline



Source: Argonaut

**Proactive ground control**

Ground conditions are currently undemanding and conducive to safe and productive mining. The mine is considered to have a low seismic risk profile. More importantly the ground is well managed with proactive rather than reactive processes. An example is the installation of a seismic monitoring system to record seismic data before the mine gets deeper and seismic risk increases. Another example of risk mitigation is the use of the same Geotechnical Consultant since the project commenced.

**Processing**

**“Vanilla” processing plant**

The process plant comprises a single stage crusher, SAG mill, flotation, thickening and filtering stages to produce a bulk nickel, copper, and cobalt concentrate.

Figure 3: Savannah plant



Source: Argonaut

**Throughput and recoveries have been excellent**

Project to date throughput and recoveries have been excellent. Nickel recovery averages 87-89%, well above design of 78%. The plant was originally designed for a throughput of 750,000tpa, but has consistently outperformed the design specifications, and process personnel are confident that the mill can operate at an annual capacity of 900-950,000t.

**Campaign milling has been a winning move**

The implementation of campaign milling in the December Q has been a big win. The mill is now operated “flat out” for 15 days out of 21 instead of the previous “stop start” basis as the mine struggled to keep up with a hungry plant demanding full time ore supply. This has led to big reductions in power and labour costs (see Costs section on the next page) and also to improved milling efficiency. With campaign milling the mine has breathing space to build ROM stocks and offer the plant optimum feed rates and blend.

**Concentrate sales and marketing**

**Ultra low MgO, high quality concentrate trucked to Wyndham, and shipped to China**

The concentrate is an ultra low MgO, high quality product averaging 7-8% nickel, 3-4% copper and 0.4-0.8% cobalt. Unfortunately there are no PGMs.

The concentrate is trucked to Wyndham, 240km to the north via road trains. In Wyndham the concentrate is stored in bulk in a dedicated enclosed storage facility. Bulk shipments to China are made on a monthly basis.

The concentrate is contracted for sale to the Jinchuan Group of China through until March 2010 (the original life of the project based on the 2003 Feasibility Study).

## Costs

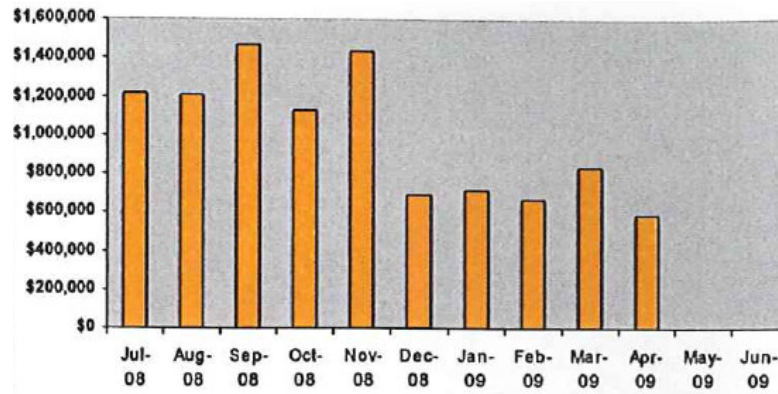
### Impressive cost reductions focused on power and people

Site management have proved to be gladiators in the cost reduction arena, with site cost currently at \$6.5-7.0m per month (down from \$8m) including \$0.5m per month for ongoing capital (mostly decline development).

### Reductions have been focused in the two biggest cost centres - fuel and people

Reductions have been focused in the two biggest cost centres - fuel (23%, ~1/2 used for power), and people (22%). Campaign milling led to a step change in power costs in December 2008.

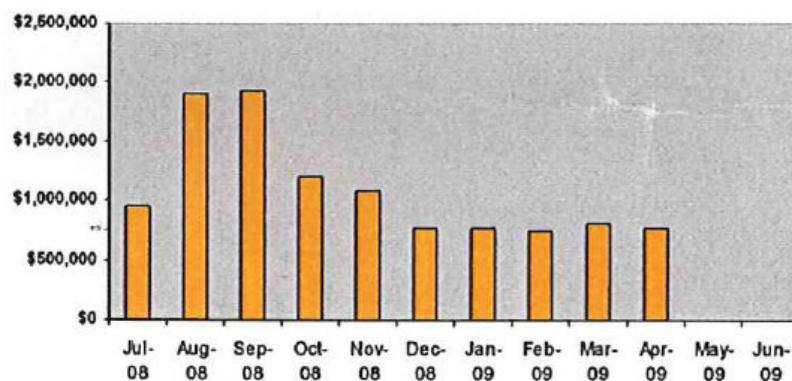
Figure 4: Savannah site cost – power generation



Source: PAN

The total workforce has been cut from 300 in November 2008 to 217 and contractor costs (not giving away margin anymore) have been slashed.

Figure 5: Savannah site cost – contractor services



Source: PAN

Estimated one-off capital items on the horizon include:

- \$1.8m - New underground truck (March 10)
- \$5.0m – Customised chiller plant (may need for FY11 wet season)
- \$5.0m - Tailings dam lift (FY11)

It may be possible to alternatively hire a chiller plant for ~\$80,000/month.

### Opportunities

**The key value adds are to increase production, and/or to increase the mine life**

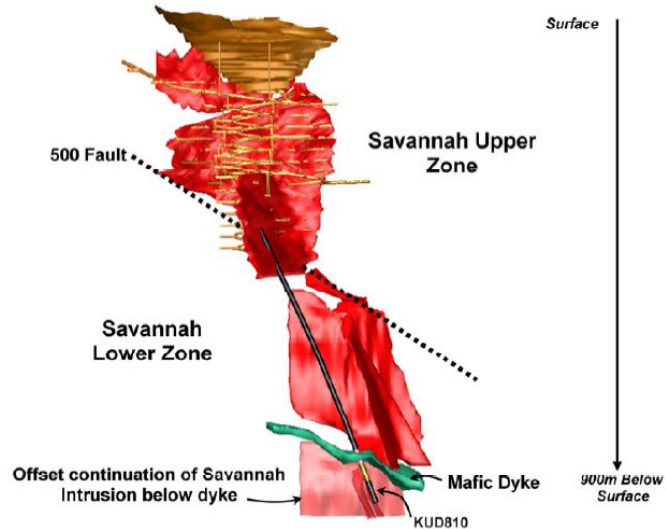
The key value adding steps at Savannah are to increase the production rate, and/or to increase the mine life. Potential opportunities to add to the mineral inventory include:

- Follow up the recent intersection of mineralisation below the Lower Zone resource (indicating the "Deeps" is open at depth) (see Figure 6)
- Drill test the margin of the Savannah intrusion adjacent to the Upper Zone
- Drill test strong EM anomaly 5 km to south (currently looking for a drill rig)

**The margin of the Savannah intrusion is a particularly appealing target**

In Argonaut's view the margin of the Savannah intrusion is a particularly appealing target. With the decline already installed extra material from a shallow position could fill the mill and lower unit costs, for limited capital expenditure.

Figure 6: Open at depth



Source: PAN

**Another opportunity is the Copernicus project**

Another opportunity to "fill the mill" is the 60% owned Copernicus project. PAN sunk \$12m into Copernicus (fully written off), whilst JV partner Thundelarra THX spent \$5m.

Figure 7: Copernicus ore on ROM (fully written off)



Source: Argonaut

Given the low reserve grade (1.1% Ni) a nstable nickel price of perhaps US\$8/lb is required to justify a re-start. It would take perhaps 2 months and \$1m to get Copernicus back up and running.

**Risks**

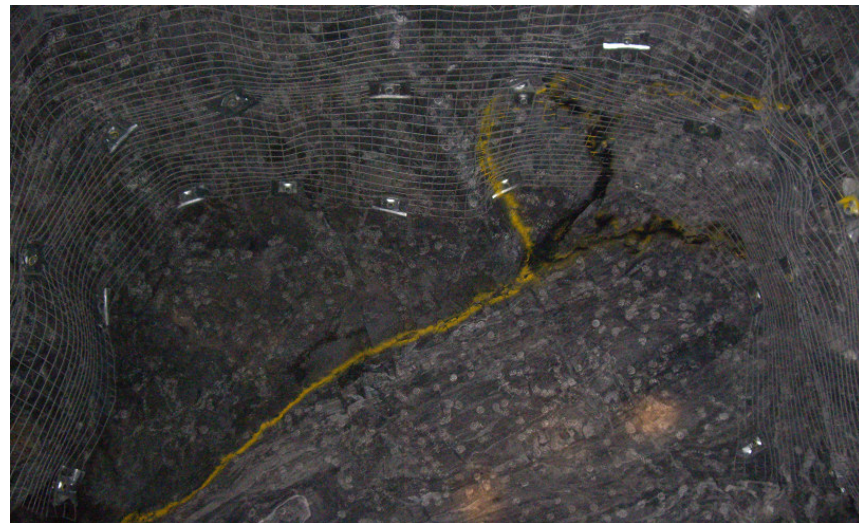
**Risks include working in heat, increased reliance on the paste filling schedule and mining through the 500 fault**

Risks include:

- Working in heat in the wet season as the mine gets deeper
- Increased reliance on the paste filling schedule
- Mining through the 500 fault

When inspected in underground development the 500 fault appeared to be benign. Argonaut notes the structure is 5-10m thick, with a zone of influence (foliations) extending ~10m either side.

Figure 8: 500 fault



Source: Argonaut

**Sensitivity analysis**

The sensitivity of the valuation to the nickel price is presented below:

Table 1: Sensitivity analysis – nickel price

	VALUATION SENSITIVITY TO NICKEL PRICE (US\$/lb)			
	5.00	7.00	9.00	11.00
	1.65	2.85	3.65	4.77

Source: Argonaut

## Summary

**PAN has a robust balance sheet...**

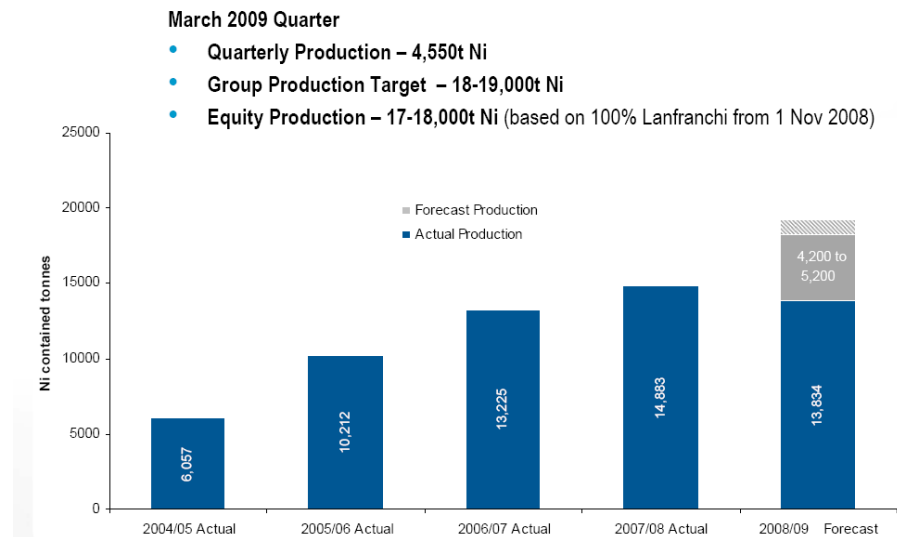
PAN offers:

- >\$50m cash and no bank debt
- Quality management
- Meaningful cost reduction initiatives underway
- No large capital expenditure items on the horizon
- >10 year mine life
- \$75m in the money hedge book (March 31)

**...and a tangible 20ktpa production goal that leverages the stock to the eventual recovery of nickel prices**

PAN's tangible 20ktpa production goal makes the stock highly leveraged to the eventual recovery of nickel prices.

Figure 9: Group production actual and forecast



Source: PAN

Argonaut's FY09F NPAT claws back to breakeven following the \$8.6m loss for the December half.

**Panoramic**

**Recommendation** BUY  
**Current Price** \$2.65  
**Valuation** \$2.85  
**All Ords (XAO)** 3,982

**Sector** Materials  
**Issued Capital (m)** 204.0  
**Market Cap (m)** \$540.5  
**Updated** 16-June-2009

Profit & Loss (\$m) 30 June	2008A	H109A	2009E	2010E
<b>Sales Revenue</b>	<b>232.4</b>	<b>113.3</b>	<b>247.7</b>	<b>303.0</b>
Other Income	6.1	1.2	2.5	5.4
Operating Costs	109.5	65.0	154.4	177.1
Depn & Amort	40.4	26.9	52.5	41.1
Exploration Exp.	2.2	5.8	7.1	10.1
Corporate/Admin	10.0	6.0	10.0	7.1
Derivatives Loss / Impairment of assets	3.5	23.2	23.2	0.0
<b>EBIT</b>	<b>72.8</b>	<b>-12.4</b>	<b>2.9</b>	<b>73.1</b>
Interest Paid	1.3	0.3	0.5	0.3
<b>Operating Profit</b>	<b>71.5</b>	<b>-12.8</b>	<b>2.5</b>	<b>72.8</b>
Tax expense	18.1	-4.1	1.3	21.8
Minorities	0.0	0.0	0.0	0.0
<b>NPAT</b>	<b>53.4</b>	<b>-8.6</b>	<b>1.2</b>	<b>51.0</b>
<b>Normalised NPAT</b>	<b>53.4</b>	<b>7.6</b>	<b>17.5</b>	<b>51.0</b>

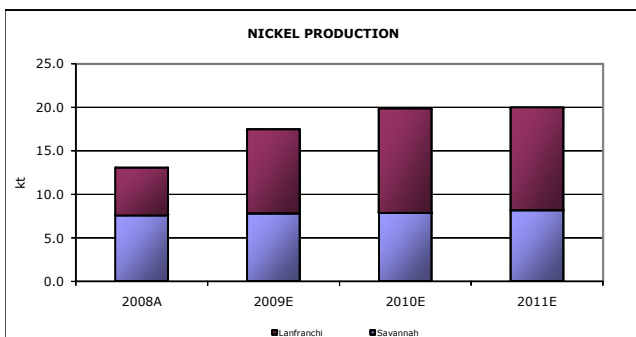
Cash Flow (\$m)	2008A	H109A	2009E	2010E
<b>Operating Cashflow</b>	<b>89.8</b>	<b>(3.5)</b>	<b>40.2</b>	<b>125.9</b>
- Capital Expenditure	55.6	43.7	61.7	15.1
- Exploration & Evaluation	6.2	0.8	3.4	10.1
- Asset Purchases (+ Asset Sales)	(2.4)	(0.2)	(0.2)	0.0
<b>Free Cashflow</b>	<b>30.4</b>	<b>(47.8)</b>	<b>(24.6)</b>	<b>100.7</b>
- 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
<b>Net Change in Cash</b>	<b>(8.6)</b>	<b>(61.2)</b>	<b>(45.7)</b>	<b>88.5</b>
Cash at end period	110.9	49.7	65.2	153.7

Balance Sheet (\$m)	2008A	2009E	2010E
Cash	110.9	65.2	153.7
Total Assets	332.1	295.4	381.2
Total Debt	8.4	4.5	4.5
Total Liabilities	100.4	75.6	124.7
Shareholders Funds	231.7	219.8	256.5

Production Summary	2008A	2009E	2010E
Savannah (kt)	7.6	7.8	7.9
Lanfranchi (kt) (attributable)	5.5	9.7	12.0
<b>Total Nickel Production</b>	<b>13.1</b>	<b>17.5</b>	<b>19.9</b>
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	4.34	4.56
Ni Price Realised (US\$/lb)	11.88	6.84	7.65

Reserves & Resources Attributable to PAN	Mt	Grade	Ni (kt)
<b>Nickel Reserves</b>			
Savannah	2.79	1.32	36.8
Lanfranchi - Deacon	2.50	2.54	63.5
Lanfranchi - Winner	0.14	4.26	6.1
Lanfranchi - Other	0.53	2.30	12.2
Copernicus	0.47	1.10	8.5
<b>Total Reserves</b>	<b>6.43</b>	<b>1.98</b>	<b>127.1</b>

Nickel Resources	Mt	Grade	Ni (kt)
Savannah	6.37	1.55	98.7
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
<b>Total Resources</b>	<b>12.25</b>	<b>1.91</b>	<b>233.6</b>



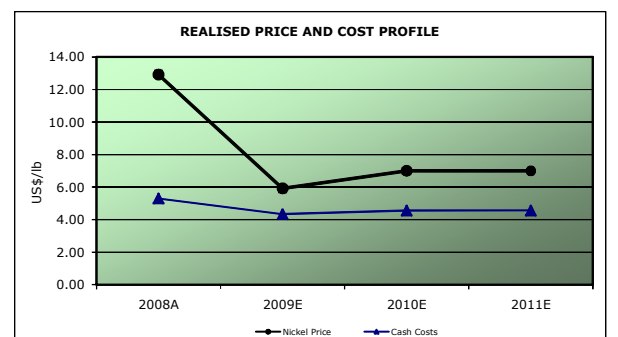
Financial Summary	2008A	2009E	2010E
<b>Reported Earnings</b>			
Net Profit (\$m)	53.4	1.2	51.0
EPS (cents)	27.6	0.6	24.8
PER (x)	9.6	453.0	10.7
<b>Normalised Earnings</b>			
Net Profit (\$m)	53.4	17.5	51.0
EPS (cents)	27.6	8.5	24.8
EPS Growth (%)	(39.2)	(69.2)	191.9
PER (x)	9.6	31.2	10.7
<b>Cashflow</b>			
Operating Cashflow (\$m)	89.8	40.2	125.9
GCFFS (cents)	46.4	19.6	61.2
PCF (x)	5.7	13.5	4.3
<b>Dividend</b>			
Dividend (cents)	12.0	7.0	7.0
Yield (%)	4.5	2.6	2.6
Franking (%)	100	100	100

Financial Ratios	2008A	2009E	2010E
<b>Balance Sheet Ratios</b>			
Total Debt / Equity (%)	3.6	2.1	1.8
Interest Cover (x)	54.3	6.0	254.7
Acid test ratio (x)	2.2	2.0	2.1
<b>Profitability Ratios</b>			
Net Profit Margin (%)	23.0	7.1	16.8
Return on Assets (%)	32.9	1.3	32.1
Return on Equity (%)	23.0	0.5	19.9

Valuation Summary	A\$m	A\$/sh
Savannah	231.6	1.13
Lanfranchi	196.8	0.96
Forwards	37.4	0.18
Corporate	-29.0	-0.14
Cash Estimate	60.0	0.29
Debt	-4.5	-0.02
Exploration	85.0	0.41
Unpaid capital	8.3	0.04
Listed Investments	0.4	0.00
<b>Total @ 10% discount rate</b>	<b>586</b>	<b>2.85</b>

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	%
Prudential	7.0
Barclays	6.2



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