

Panoramic Resources Limited

What Price Lower Savannah?



Wilson HTM
INVESTMENT GROUP

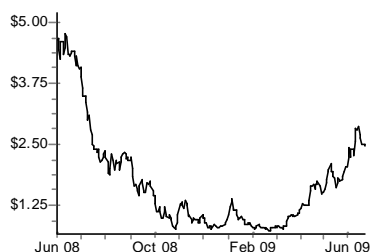
23 June 2009

\$2.45

HOLD

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Price Performance



Security/Capital Details

ASX Code	PAN
Market Cap	\$513 M
Issued Shares (dil)	208.7 M
Avg Mth T'over	28.60 M
12 Mth High – Low	\$4.41 - \$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	\$1.61
12 Mth Price Target	\$1.69

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

Recommendation

Coming months are expected to see a softening of metal prices as economic activity in the Northern Hemisphere slows for the summer period and as Chinese buying, significantly for stockpiling purposes slows. This, together with our view that PAN is fully priced based on our metal price forecasts, suggests risks are to the downside and we maintain our HOLD recommendation, although we are not averse to taking profits at current levels. Our recommendation will be further reviewed as part of our usual end of quarter review of commodity price assumptions early next month.

Key Points

- Following the recent release of an updated resource estimate for the lower Savannah mine mineralisation, we have evaluated the future nickel price at which we believe it will be economic to develop this resource.
- We have concluded that either our long term nickel price assumption of US\$6.50/lb which prevails from June 2013 would need to be approximately US\$1.00/lb higher, or the nickel price over the period Jun-2010 to Dec-2013 (average US\$5.43/lb) when lower Savannah is expected to be producing would need to be ~10% higher (average US\$5.98/lb), or some combination of the two, for the development of lower Savannah to be economic. Last night's LME evening closing price was US\$6.54/lb.
- As these higher price forecasts are in our view not unreasonable expectations, we are now assuming in our modelling that mining at Savannah proceeds below the 500 fault to extract lower Savannah mineralisation that at this point we assume to be 3.36Mt @ 1.18% Ni, 0.65% Cu and 0.05% Co. Our assumed inventory is based on a consideration of the resource to reserve conversion for upper Savannah and the currently defined indicated resource for lower Savannah of 3.395Mt @ 1.48% Ni, 0.83% Cu, 0.07% Co.
- While our DCF valuation and target price for PAN have changed only marginally as a result of incorporating lower Savannah into our modelling (DCF valuation \$1.61/sh vs \$1.67/sh; target \$1.69/sh vs \$1.73/sh), our near term earnings forecasts have been lowered as follows, with the valuation impact significantly off-set due to the assumed longer mine life (end 2016):

NPAT \$m	FY2009	FY2010	FY2011	FY2012
Previous	21.6	40.1	28.5	52.0
Revised	21.6	33.3	21.0	38.0

- The earnings downgrades reflect various changes to our modelling including a lowering of our production forecast in FY2010 from 21.4kt to 20.3kt contained nickel as well as lower copper and cobalt production (4.3kt vs 4.4kt, 0.4kt vs 0.5kt), and higher D&A in FY2011 as lower Savannah production ramps up.

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	8.8	46.1	5.3	12.0	4.9	100
2009e	4.0	21.6	10.4	-62.8	23.7	23.2	10.6	2.0	0.8	100
2010e	33.3	33.3	16.0	53.8	15.4	37.9	6.5	9.0	3.7	100
2011e	21.0	21.0	10.1	-37.0	24.5	34.8	7.1	5.0	2.0	100



Lower Savannah – Mineral Resource

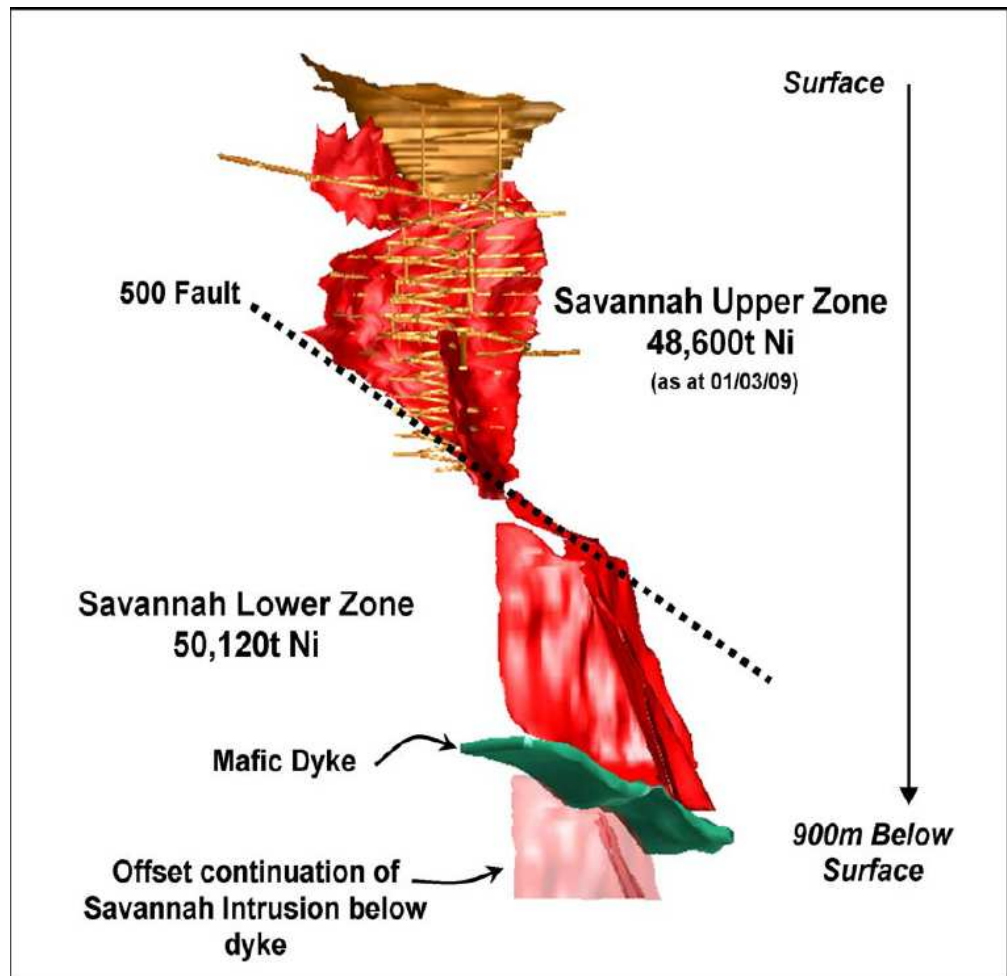
- On 3rd June, PAN reported a revised mineral resource for the lower Savannah mineralisation. The new resource represented a 142% increase in contained nickel compared with the previous estimate and now stands at 3.40Mt @ 1.48% Ni for 50,120 tonnes contained.

Savannah Lower Zone Mineral Resource (0.5% Ni cut-off)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured							
Indicated	3,395,000	1.48	0.83	0.07	50,120	28,120	2,380
Inferred							
Total	3,395,000	1.48	0.83	0.07	50,120	28,120	2,380

Source: Panoramic Resources Ltd

- The relative position of the lower Savannah resource to current workings is depicted in the following diagram. Notably, the existing decline is developed to the level of the 500 fault, with around 150m of further development being required to access the top of the lower Savannah mineralisation.



Source: Panoramic Resources Ltd

- The new resource includes all mineralisation below the 500 fault down to approximately 900m below surface where the Savannah intrusion is off-set by a fault along a mafic dyke. Drilling has intersected mineralisation within the faulted off-set block below the lower zone resource, with several zones of "Savannah style" mineralisation over a length of 45m including 3.3m of massive sulphides. As such, there is potential for an extension of the lower zone mineralisation below 900m below surface.

Upper And Lower Savannah - Comparison

- The following tables compare the quality of the upper Savannah resource with that of the lower. Notably, the lower Savannah resource contains 3.1% more nickel, 17% more copper but 5.6% less cobalt.

Upper Savannah Resource As Of 1st March 2009 (0.5% Ni cut-off grade)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured	1,642,000	1.72	0.86	0.09	28,300	14,160	1,470
Indicated	1,271,500	1.56	0.76	0.08	19,890	9,710	1,020
Inferred	65,700	0.65	0.25	0.04	430	160	30
Total	2,979,800	1.63	0.80	0.08	48,620	24,030	2,520

Source: Panoramic Resources Ltd

Lower Savannah Resource As Of 3rd June 2009 (0.5% Ni cut-off grade)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured							
Indicated	3,395,000	1.48	0.83	0.07	50,120	28,120	2,380
Inferred							
Total	3,395,000	1.48	0.83	0.07	50,120	28,120	2,380

Source: Panoramic Resources Ltd

Resource To Reserve Conversion – Upper Savannah

- The following table depicts the previous total Savannah resource at 30th June 2008 as released to the market on 29th July 2008, and separately the lower Savannah resource at the same date as released to the market on 3rd June 2009. The latter had not been previously separately disclosed to our knowledge. From these separate statements, we have derived the upper Savannah resource at 30th June 2008 to compare with upper Savannah reserves as stated at that date.

Total Savannah Resource As Of 30th June 2008 (0.5% Ni cut-off grade)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured	819,000	1.63	0.78	0.09	13,380	6,380	730
Indicated	3,234,000	1.50	0.76	0.08	48,450	24,520	2,490
Inferred	687,000	1.23	0.46	0.07	8,470	3,150	450
Total	4,740,000	1.48	0.72	0.08	70,300	34,050	3,670

Lower Savannah Resource As Of 30th June 2008 (0.5% Ni cut-off grade)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured							
Indicated	1,097,000	1.27	0.68	0.07	13,940	7,470	770
Inferred	509,500	1.34	0.47	0.07	6,810	2,410	340
Total	1,607,200	1.29	0.61	0.07	20,750	9,870	1,110

Source: Panoramic Resources Ltd

Derived Measured + Indicated Upper Savannah Resource As Of 30th June 2008 (0.5% Ni

cut-off)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Measured	819,000	1.63	0.78	0.09	13,380	6,380	730
Indicated	2,137,000	1.62	0.80	0.09	34,510	17,050	1,720
Total	2,956,000	1.62	0.80	0.09	47,890	23,430	2,450

Source: Panoramic Resources Ltd

- The following is the stated ore reserve for upper Savannah as of 30th June 2008.

Upper Savannah Reserve As Of 30th June 2008 (0.5% Ni cut-off grade)

Category	Tonnes	Ni %	Cu %	Co %	Ni (t)	Cu (t)	Co (t)
Proven							
Probable	2,926,000	1.29	0.62	0.07	37,750	18,140	2,050
Total	2,926,000	1.29	0.62	0.07	37,750	18,140	2,050

Source: Panoramic Resources Ltd

- From the above, we deduce that probable reserves represented 99% of upper Savannah measured and indicated resources while the reserve nickel grade was 80% of the equivalent resource grade, copper was 78%, and cobalt was 78%.

Mining Lower Savannah – The Scenario

- Given the now sizeable lower Savannah resource, we now examine the potential economics of mining.
- Our assumptions are as follows:
 - Using the upper Savannah resource to reserve conversion as a guide, and based on the lower Savannah resource at 3rd June 2009, we adopt a mineral inventory for lower Savannah of 3.36Mt @ 1.18% Ni, 0.65% Cu and 0.05% Co. We note however that lower Savannah appears to contain higher grade zones which could in principle be preferentially mined to increase the head grade.
 - 150m of development across the 500 fault to access the top of the lower Savannah mineral inventory, plus initial orebody development at a cost of \$3.0m, plus installation of a raise bore ventilation shaft to surface in FY2011 at an estimated cost of \$15m, with ongoing capital development cost per annum of \$6.0m.
 - We assume that cash operating costs in real terms reduce marginally relative to our June 2009 half year forecast – A\$6.28/lb versus A\$6.46/lb after including capitalised development costs for producing orebodies.
 - Savannah production is assumed to be maintained around 8.0ktpa nickel in concentrate except in FY2011 and FY2012 when we assume that mill throughput is boosted by the availability of both upper and lower Savannah as well as Copernicus ore.

Lower Savannah - Economics

- Based on our long term metal price forecasts and exchange rate (Ni US\$6.50/lb, Cu US\$0.75/lb, Co US\$13.00/lb, AUDUSD 0.75), and other assumptions as noted above, development of lower Savannah would not be economic based on our WACC of 10.5%. NPV for the Savannah project falls from \$24.0m to \$7.6m.
- The following table depicts the sensitivity of this conclusion to our long term nickel price assumption. We conclude that a long term nickel price of around US\$7.50/lb, other things equal, would be required to justify the development of lower Savannah. Our forecasts indicate that the Savannah mine becomes totally reliant on lower Savannah from around the Dec half 2013. Our long term price

assumptions commence in the Jun-2013 half year.

Long Term Nickel Price Sensitivity – Savannah Mine, Inclusive Of Lower Savannah

LT Ni Price (US\$/lb)	6.50	7.50	8.50	9.50
NPV Savannah Mine (A\$m)	7.6	28.7	49.7	70.6

Source: WilsonHTM

- Alternatively, if the nickel price from the commencement of mining at lower Savannah (forecast June 2010 half) to the Dec 2012 half year is higher than we are forecasting by ~10%, other things equal, the outcome would be approximately NPV neutral. The following table shows the sensitivity of the NPV of the project, inclusive of lower Savannah, to a higher than forecast nickel price in the period June 2010-Dec 2012 (forecast average US\$5.43/lb). That is, that period when mining at lower Savannah is expected to be taking place, but prior to the period when our long term price assumptions apply.

Sensitivity Of Savannah Project NPV To Nickel Price June 2010-Dec 2012

Ni Price Relative To Forecast	+10%	+15%	+20%	+25%
NPV Savannah Mine (A\$m)	24.6	33.0	41.3	49.7

Source: WilsonHTM

Nickel Price Forecasts June 2010-Dec-2012

	Jun-10	Dec-10	Jun-11	Dec-11	Jun-12	Dec-12
Ni Price (US\$/lb)	4.33	4.68	5.10	5.10	6.70	6.70

Source: WilsonHTM

Pan Valuation And Target Price Sensitivity

- In the following tables we illustrate the impact of the above scenario analysis on our DCF valuation of PAN equity, together with the impact on our target price which is set as the DCF valuation 12 months forward, or 30th June 2010. The forecast cashflows used in this analysis are inclusive of those associated with the mining of lower Savannah.

Sensitivity Of DCF Valuation And Target Price To Long term Nickel Price

LT Ni Price (US\$/lb)	Forecast	7.50	8.50	9.50	
DCF Valuation 30/06/09 (\$/share)	6.50	1.61	1.93	2.25	2.57
Target Price 30/06/09 (\$/share)		1.69	2.07	2.42	2.77

Source: WilsonHTM

Sensitivity Of DCF Valuation And Target Price To Nickel Price June 2010-Dec 2012

Ni Price Relative To Forecast	Forecast	+10%	+15%	+20%	+25%	+30%
Average Nickel Price – June 2010-Dec 2012 (US\$/lb)	5.43	5.98	6.25	6.52	6.79	7.06
DCF Valuation 30/06/09 (\$/share)	1.61	1.82	1.91	2.01	2.11	2.21
Target Price 30/06/09 (\$/share)	1.69	1.93	2.04	2.15	2.25	2.36

Source: WilsonHTM

Panoramic Resources Limited (PAN : \$2.46)

PRODUCTION

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Contained Nickel (kt)	11.9	13.1	17.3	20.3	22.9
Contained Copper (kt)	4.0	4.5	4.7	5.3	6.1
Contained Cobalt (kt)	0.4	0.4	0.4	0.4	0.6

PRICES

Yr Ending June	2007A	2008A	2009E	2010E	2011E
AUDUSD (USD)	0.79	0.90	0.73	0.68	0.67
Nickel (US\$/lb)	17.03	12.95	5.69	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 & VALUATION FUNDAMENTALS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EPS Before Abs (c)	43.1	27.9	10.4	16.0	10.1
EPS Growth (%)	N/A	-35.3%	-62.8%	53.8%	-37.0%
PER (x)	9.6	8.8	23.7	15.4	24.5
CFPS (c)	99.5	46.1	23.2	37.9	34.8
P/CF (x)	4.2	5.3	10.6	6.5	7.1
EV/EBITDA (x)	4.4	3.7	5.4	4.5	4.8
DPS (c)	12.0	12.0	2.0	9.0	5.0
Yield (%)	2.9%	4.9%	0.8%	3.7%	2.0%
Franking (%)	100%	100%	100%	100%	100%

DCF VALUATION

Yr Ending June	@ 10.5%		@ 10.0%	
	A\$m	A\$ps	A\$m	A\$ps
Savannah	7.6	0.04	8.1	0.04
Lanfranchi	130.0	0.62	132.4	0.63
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	41.2	0.20	42.0	0.20
Cash	78.3	0.38	78.3	0.38
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	336.8	1.61	340.1	1.63

PROFITABILITY RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
EBIT / Sales (%)	41.8%	30.2%	11.7%	21.4%	11.9%
ROA (%)	N/A	36.4%	10.4%	17.6%	10.7%
ROE (%)	N/A	32.7%	9.1%	12.9%	7.6%
ROFE (%)	N/A	96.9%	16.2%	25.9%	16.2%

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	99.3
EBIT	43.8	26.5	8.2	16.3	18.6
Net Profit	24.4	29.0	-8.6	12.6	14.4
EPS	15.8	12.2	4.3	6.0	6.9

BALANCE SHEET (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Cash	119.6	110.9	78.3	114.9	142.4
Total Assets	283.7	332.1	330.0	352.1	360.6
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	269.4	279.8
Total Funds Employed	15.3	129.2	172.5	159.0	142.0

LIQUIDITY & LEVERAGE RATIOS

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Debt / Equity (%)	10.8%	3.6%	1.8%	1.7%	1.6%
Gearing (%) ¹	9.7%	3.5%	1.8%	1.7%	1.6%
Interest Cover (x)	244.3	-15.2	-7.1	-11.6	-4.7
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 & LOSS (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Sales Revenue	299.3	232.4	209.8	200.6	205.3
EBITDA	167.0	110.7	82.2	89.8	78.0
Depn and Amortisation	41.9	40.4	57.7	46.8	53.6
EBIT	125.1	70.3	24.5	43.0	24.4
Net Interest Expense	-0.1	5.2	3.5	3.7	5.2
Pre-tax Profit	124.6	74.9	27.9	46.7	29.5
Tax	36.5	16.9	6.3	13.4	8.6
Tax rate (%)	29.3%	22.5%	22.5%	28.7%	29.0%
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	33.3	21.0
Abnormals	0.0	-4.7	-17.7	0.0	0.0
Reported Net Profit	88.1	53.3	4.0	33.3	21.0

CASHFLOW (\$m)

Yr Ending June	2007A	2008A	2009E	2010E	2011E
Operating Cash Flow	203.3	95.8	48.5	79.1	72.6
Capital Expenditure	-9.8	-22.2	-23.1	-13.1	-16.3
Expln, Develop, Evaln	-22.8	-39.6	-42.7	-19.2	-18.3
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	-65.8	-32.3	-34.6
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	-10.2	-14.3
Other Fin. Flows	-44.0	0.0	0.0	0.0	0.0
Financing Cash Flow	-76.8	-39.1	-15.3	-10.2	-10.5
Cash Increase (Decrease)	88.9	-8.7	-32.7	36.7	27.5

EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2007A	2008A	2009E	2010E	2011E
+/- 1c Movement US\$/A\$	0.0	0.0	4.6	8.0	13.7
+/-10% Ni Price Change	0.0	0.0	65.4	25.9	68.7
+/-10% Change In Costs	0.0	0.0	46.6	30.2	55.8

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

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