

# Panoramic Resources Limited

## FY2009 Result – Complicated By Lanfranchi Accounting



1 September 2009

**\$2.48**

**HOLD**

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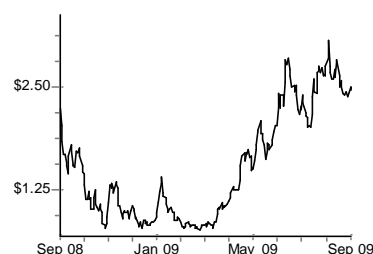
### Recommendation

PAN has reported a FY2009 reported profit slightly lower than our forecast. However, at the EBITDA line the result was in line and the company has declared a final 2cps fully franked dividend. The balance sheet remains strong. We note that the PAN board remains cautious on the short term outlook for the nickel price as we do for all base metals. PAN is as a result looking to increase its nickel hedge book at prices that provide an acceptable margin. The FY2010 exploration budget has been set at \$8.0m. PAN's successful track record as a developer and explorer makes the company an attractive exposure to the nickel sector at the right price. At current levels we retain our HOLD recommendation and a target price of \$2.25/share (previously \$2.27/share).

### Key Points

- Reported NPAT of \$5.6m versus \$53.3m in the pcp and consensus of \$18.7m (IRESS). The result was slightly lower than our forecast of \$9.4m. The June half saw a significant turnaround in profitability with reported NPAT of \$14.3m. After stripping out an impairment charge of ~\$18.4m after tax, the June half result of \$14.9m compared with the Dec half result of \$9.1m.
- Reported profit for FY2009 is complicated by accounting for the 25% of the Lanfranchi mine not previously owned but purchased in Nov 2008. Due to the transaction not being finalised until 26<sup>th</sup> May 2009, the income statement captures only revenue and costs (for the 25% interest) for the balance of May and June. Profits/ losses prior to that date were set off against consideration paid for the asset.
- The impairment charge is in part due to the placing of the Copernicus operation on care and maintenance - \$12.3m pre-tax in the Dec half year (\$8.6m after tax). If and when Copernicus is restarted, this item will be reversed and provide a one-off boost to profit in that year.
- In addition to the impairment charge, FY2009 reported profit included \$7.6m of exploration expenses written off (\$2.3m in pcp), and a negative mark to market loss on derivative positions of \$6.0m (\$3.5m in pcp).
- A tax benefit of \$0.215m (rather than expense) also contributed to the level of reported profit.
- Fully diluted EPS was 2.8cps vs 27.3cps in the pcp.
- The balance sheet remains strong with cash and term deposits of \$66.4m and interest bearing liabilities of \$6.6m represented by leasing and insurance finance liabilities. Net deferred tax liabilities amount to \$45.2m (liabilities being \$51.5m) and are classified as non-current, and result from temporary timing differences. The net position is payable in cash over the life of the company's assets.
- While the result was below our forecast, and consensus, we see no significance for our investment view. EBITDA of \$90.5m was in keeping with our forecast of \$90.8m, and EBIT was higher at \$41.2m versus our \$32.4m. June quarter D&A was lower due to the increase in Deacon reserves, while the June half was lower due to the above-mentioned accounting issue for the 25% Lanfranchi interest. Going forward the total D&A charge is somewhat uncertain given the likelihood of reserves being added at Savannah (lower D&A), the increased 100% interest in Lanfranchi (higher D&A), and the ongoing benefit of the increased Deacon reserve base. At this stage we see FY2010 D&A as likely to be in the range of \$40-50m.
- Final fully franked dividend of 2.0cps declared (pcp 5.0cps).

### Price Performance



### Security/Capital Details

|                     |                 |
|---------------------|-----------------|
| ASX Code            | PAN             |
| Market Cap          | \$518 M         |
| Issued Shares (dil) | 208.7 M         |
| Avg Mth T'over      | 28.60 M         |
| 12 Mth High – Low   | \$3.09 - \$0.75 |

### Key Data/Ratios – FY 2010

|                     |         |
|---------------------|---------|
| EBITDA / Sales      | 50.8%   |
| EBIT / Sales        | 28.5%   |
| Debt / Equity       | 2.1%    |
| Interest Cover      | 113.4 x |
| ROE                 | 13.9%   |
| EPS Growth          | 72.5%   |
| DCF                 | \$2.16  |
| 12 Mth Price Target | \$2.25  |

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 % |
|--------------|----------------|-----------------|--------------|--------------|-------|--------|--------|-------|-----------|------------|
| 2009a        | 5.6            | 24.0            | 11.5         | -58.7        | 21.5  | 16.1   | 15.4   | 3.0   | 1.2       | 100        |
| 2010e        | 41.5           | 41.5            | 19.9         | 72.5         | 12.5  | 40.4   | 6.1    | 11.0  | 4.4       | 100        |
| 2011e        | 41.4           | 41.4            | 19.9         | -0.1         | 12.5  | 43.6   | 5.7    | 10.0  | 4.0       | 100        |
| 2012e        | 70.3           | 70.3            | 33.7         | 69.8         | 7.4   | 50.4   | 4.9    | 17.0  | 6.8       | 100        |

## Panoramic Resources Limited (PAN : \$2.48)

## PRODUCTION

| Yr Ending June        | 2008A | 2009A | 2010E | 2011E | 2012E |
|-----------------------|-------|-------|-------|-------|-------|
| Contained Nickel (kt) | 13.1  | 17.4  | 18.5  | 22.9  | 20.7  |
| Contained Copper (kt) | 4.5   | 5.0   | 5.2   | 6.1   | 5.8   |
| Contained Cobalt (kt) | 0.4   | 0.4   | 0.4   | 0.6   | 0.6   |

## PRICES

| Yr Ending June   | 2008A | 2009A | 2010E | 2011E | 2012E |
|------------------|-------|-------|-------|-------|-------|
| AUDUSD (USD)     | 0.90  | 0.75  | 0.79  | 0.77  | 0.75  |
| Nickel (US\$/lb) | 12.95 | 6.13  | 5.74  | 6.39  | 7.70  |
| Copper (US\$/lb) | 3.53  | 2.14  | 1.94  | 2.25  | 2.60  |
| Cobalt (US\$/lb) | 37.10 | 21.25 | 16.00 | 18.50 | 21.50 |

## INVESTMENT &amp; VALUATION FUNDAMENTALS

| Yr Ending June     | 2008A       | 2009A       | 2010E       | 2011E       | 2012E       |
|--------------------|-------------|-------------|-------------|-------------|-------------|
| EPS Before Abs (c) | 27.9        | 11.5        | 19.9        | 19.9        | 33.7        |
| EPS Growth (%)     | N/A         | -58.7%      | 72.5%       | -0.1%       | 69.8%       |
| <b>PER (x)</b>     | <b>8.9</b>  | <b>21.5</b> | <b>12.5</b> | <b>12.5</b> | <b>7.4</b>  |
| CFPS (c)           | 46.1        | 16.1        | 40.4        | 43.6        | 50.4        |
| <b>P/CF (x)</b>    | <b>5.4</b>  | <b>15.4</b> | <b>6.1</b>  | <b>5.7</b>  | <b>4.9</b>  |
| EV/EBITDA (x)      | 3.8         | 5.8         | 4.4         | 3.7         | 2.5         |
| DPS (c)            | 12.0        | 3.0         | 11.0        | 10.0        | 17.0        |
| <b>Yield (%)</b>   | <b>4.8%</b> | <b>1.2%</b> | <b>4.4%</b> | <b>4.0%</b> | <b>6.8%</b> |
| Franking (%)       | 100%        | 100%        | 100%        | 100%        | 100%        |

## DCF VALUATION

| Yr Ending June                | @ 10.5% |       | @ 10.0% |       |
|-------------------------------|---------|-------|---------|-------|
|                               | A\$m    | A\$ps | A\$m    | A\$ps |
| Savannah                      | 59.6    | 0.29  | 60.7    | 0.29  |
| Lanfranchi                    | 190.0   | 0.91  | 193.3   | 0.93  |
| Corporate Costs Capitalised   | -32.4   | -0.16 | -32.9   | -0.16 |
| Hedge Book                    | 30.3    | 0.15  | 30.4    | 0.15  |
| Interests - Other Entities    | 1.2     | 0.01  | 1.2     | 0.01  |
| Exploration/Dev Portfolio     | 73.0    | 0.35  | 73.0    | 0.35  |
| Franking Credits              | 61.9    | 0.30  | 63.0    | 0.30  |
| Cash                          | 67.3    | 0.32  | 67.3    | 0.32  |
| Interest Bearing Liabilities  | -6.6    | -0.03 | -6.6    | -0.03 |
| Minorities                    | 0.0     | 0.00  | 0.0     | 0.00  |
| Additional Capital - Dilution | 6.4     | 0.03  | 6.5     | 0.03  |
| Total Valuation - Diluted     | 450.8   | 2.16  | 455.9   | 2.18  |

## PROFITABILITY RATIOS

| Yr Ending June          | 2008A        | 2009A        | 2010E        | 2011E        | 2012E        |
|-------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>EBIT / Sales (%)</b> | <b>30.2%</b> | <b>14.5%</b> | <b>28.5%</b> | <b>24.2%</b> | <b>38.6%</b> |
| ROA (%)                 | N/A          | 11.9%        | 17.3%        | 17.7%        | 32.6%        |
| <b>ROE (%)</b>          | <b>N/A</b>   | <b>9.3%</b>  | <b>13.9%</b> | <b>12.7%</b> | <b>19.3%</b> |
| ROFE (%)                | N/A          | 17.6%        | 23.6%        | 24.5%        | 45.7%        |

## INTERIMS (\$m)

| Half Yr           | Dec 08      | Jun 09      | Dec 09      | Jun 10      | Dec 10      |
|-------------------|-------------|-------------|-------------|-------------|-------------|
| Yr Ending June    | 1H A        | 2H A        | 1H E        | 2H E        | 1H E        |
| Sales Revenue     | 110.7       | 114.4       | 99.8        | 96.6        | 99.8        |
| EBIT              | 8.2         | 24.5        | 31.3        | 24.7        | 12.3        |
| <b>Net Profit</b> | <b>-8.6</b> | <b>14.3</b> | <b>22.9</b> | <b>18.6</b> | <b>10.1</b> |
| EPS               | 4.4         | 7.2         | 11.0        | 8.9         | 4.8         |

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

## BALANCE SHEET (\$m)

| Yr Ending June            | 2008A | 2009A | 2010E | 2011E | 2012E |
|---------------------------|-------|-------|-------|-------|-------|
| Cash                      | 110.9 | 50.0  | 85.7  | 131.6 | 195.4 |
| Total Assets              | 332.1 | 380.3 | 404.5 | 433.4 | 472.9 |
| Debt                      | 8.4   | 6.6   | 6.6   | 6.6   | 6.6   |
| Total Liabilities         | 100.4 | 94.0  | 93.0  | 91.0  | 89.1  |
| Total Shareholders Equity | 231.7 | 286.3 | 311.4 | 342.3 | 383.9 |
| Total Funds Employed      | 129.2 | 242.9 | 232.3 | 217.3 | 195.0 |

## LIQUIDITY &amp; LEVERAGE RATIOS

| Yr Ending June           | 2008A | 2009A | 2010E | 2011E | 2012E |
|--------------------------|-------|-------|-------|-------|-------|
| Debt / Equity (%)        | 3.6%  | 2.3%  | 2.1%  | 1.9%  | 1.7%  |
| Gearing (%) <sup>1</sup> | 3.5%  | 2.2%  | 2.1%  | 1.9%  | 1.7%  |
| Interest Cover (x)       | -15.2 | 33.5  | -23.7 | -14.9 | -15.8 |
| Debt / CashFlow (x)      | 0.1   | 0.2   | 0.1   | 0.1   | 0.1   |
| (Debt+CNotes)/ CashFlow  | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |

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

| Yr Ending June         | 2008A       | 2009A       | 2010E       | 2011E       | 2012E        |
|------------------------|-------------|-------------|-------------|-------------|--------------|
| Sales Revenue          | 232.4       | 225.1       | 196.4       | 227.6       | 244.7        |
| EBITDA                 | 110.7       | 82.2        | 99.8        | 106.6       | 131.3        |
| Depn and Amortisation  | 40.4        | 49.5        | 43.8        | 51.6        | 36.7         |
| <b>EBIT</b>            | <b>70.3</b> | <b>32.7</b> | <b>56.0</b> | <b>55.0</b> | <b>94.5</b>  |
| Net Interest Expense   | 5.2         | 2.9         | 2.4         | 3.7         | 6.0          |
| <b>Pre-tax Profit</b>  | <b>74.9</b> | <b>31.7</b> | <b>58.4</b> | <b>58.7</b> | <b>100.5</b> |
| Tax                    | 16.9        | 7.7         | 16.9        | 17.3        | 30.1         |
| Tax rate (%)           | 22.5%       | 24.3%       | 29.0%       | 29.5%       | 30.0%        |
| 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          |
| <b>Net Profit</b>      | <b>58.0</b> | <b>24.0</b> | <b>41.5</b> | <b>41.4</b> | <b>70.3</b>  |
| Abnormals              | -4.7        | -18.4       | 0.0         | 0.0         | 0.0          |
| Reported Net Profit    | 53.3        | 5.6         | 41.5        | 41.4        | 70.3         |

## CASHFLOW (\$m)

| Yr Ending June                  | 2008A        | 2009A        | 2010E        | 2011E        | 2012E        |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Operating Cash Flow</b>      | <b>95.8</b>  | <b>33.5</b>  | <b>84.3</b>  | <b>91.0</b>  | <b>105.1</b> |
| Capital Expenditure             | -22.2        | -15.7        | -13.1        | -16.3        | -1.3         |
| Expln, Develop, Evaln           | -39.6        | -44.8        | -19.2        | -18.3        | -11.2        |
| Asset Sales/Acquisitions        | -3.7         | 0.0          | 0.0          | 0.0          | 0.0          |
| Other                           | 0.0          | -17.8        | 0.0          | 0.0          | 0.0          |
| <b>Investing Cash Flow</b>      | <b>-65.4</b> | <b>-78.4</b> | <b>-32.3</b> | <b>-34.6</b> | <b>-12.4</b> |
| Share Issues/(Buybacks)         | 3.6          | 0.2          | 0.0          | 3.8          | 0.0          |
| Debt Drawdown (Repay)           | -6.6         | -4.7         | 0.0          | 0.0          | 0.0          |
| Dividends Paid                  | -36.1        | -11.5        | -16.3        | -14.3        | -28.8        |
| Other Fin. Flows                | 0.0          | 0.0          | 0.0          | 0.0          | 0.0          |
| <b>Financing Cash Flow</b>      | <b>-39.1</b> | <b>-16.1</b> | <b>-16.3</b> | <b>-10.5</b> | <b>-28.8</b> |
| <b>Cash Increase (Decrease)</b> | <b>-8.7</b>  | <b>-60.9</b> | <b>35.7</b>  | <b>45.9</b>  | <b>63.9</b>  |

## EARNINGS SENSITIVITIES - % CHANGE

| Yr Ending June           | 2008A | 2009A | 2010E | 2011E | 2012E |
|--------------------------|-------|-------|-------|-------|-------|
| +/- 1c Movement US\$/A\$ | 0.0   | 0.0   | 2.0   | 6.6   | 4.4   |
| +/-10% Ni Price Change   | 0.0   | 0.0   | 21.5  | 38.0  | 26.1  |
| +/-10% Change In Costs   | 0.0   | 0.0   | 21.9  | 27.4  | 17.3  |

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