

Wednesday 2 September 2009

PAN AU Neutral

Relative to Volatility index ex 100 very high

Stock price as of 01 Sep 09 A\$ 2.48
 12-month target A\$ 1.75
 12-month TSR % -27.8
 Valuation A\$ 1.27
 - DCF (WACC 12.7%, beta 1.4, ERP 5.0%, RFR 6.5%)

GICS sector materials
 Market cap A\$m 506
 30-day avg turnover A\$m 2.4
 Number shares on issue m 204.0

Investment fundamentals

Year end 30 Jun		2009A	2010E	2011E	2012E
Sales revenue	m	225.1	276.7	235.2	239.7
EBIT	m	2.5	47.3	5.4	7.4
Reported profit	m	5.6	37.0	9.2	11.6
Adjusted profit	m	5.6	37.0	9.2	11.6
Gross cashflow	m	94.8	83.0	55.7	57.1
CFPS	¢	46.9	39.8	26.7	27.4
CFPS growth	%	-4.4	-15.1	-32.9	2.5
PGCFPS	x	5.3	6.2	9.3	9.1
PGCFPS rel	x	0.61	0.67	1.12	1.17
EPS adj	¢	2.4	17.8	4.4	5.6
EPS adj growth	%	-91.1	nmf	-75.2	26.2
PE adj	x	101.8	14.0	56.4	44.7
PE rel	x	6.54	0.91	4.34	3.83
Total DPS	¢	1.0	4.0	0.0	0.0
Total div yield	%	0.4	1.6	0.0	0.0
Franning	%	100	100	0	0
ROA	%	0.7	11.8	1.3	1.7
ROE	%	2.2	12.0	2.8	3.4
EV/EBITDA	x	5.0	5.0	8.9	8.8
Net debt/equity	%	-15.2	-29.7	-33.1	-42.4
Price/book	x	1.8	1.6	1.6	1.5

PAN AU vs ex 100, & rec history



Source: FactSet, Macquarie Research, September 2009 (all figures in AUD unless noted)

Panoramic Resources

Supportive nickel price to kick off FY10

Event

- Panoramic (PAN) has reported FY09 financial results.

Impact

- Result Inline.** PAN reported NPAT of \$5.6m, broadly in line with our forecast of \$6.4m, and declared a fully franked final dividend of 2cps (interim 1cps). PAN reported cash and term deposits of \$67.3m with the only debt \$6.5m in operating leases. Operating cashflow was \$29m, with capex of \$55m (~\$40m for mine development and ~\$16m for the installation of the Deacon vent shaft).
- Cautious outlook on the nickel price.** In the result, PAN said it is cautious on the short-term outlook for nickel and is therefore being opportunistic and looking to hedge additional nickel at current prices that provide acceptable margins. Management is more confident on the longer-term outlook and expects future prices to reflect higher capital and operating costs for new projects.
- What to look for in FY10.** PAN has provided production guidance for 18–19kt contained nickel for FY10 (Macq est 19.2kt). The exploration budget for FY10 is ~\$8m, with the focus on reporting a reserve for the Savannah lower zone, down plunge drilling at Deacon and PAN's other known ore bodies at Kambalda, the Northern Dome structure at Lanfranchi and greenfield targets at other tenement packages.
- Lanfranchi agreement extended to 2019.** The new agreement is for 430kt ore in FY10 (FY09: 405kt), with an annual base tonnage of 350kt until 27 February 2019. For tonnages above 350kt, PAN and BHP will negotiate on an annual basis, we understand there is ~400kt of latent capacity in the Kambalda nickel concentrator which we believe is supportive of PAN ability to sell incremental tonnes to BHP on an annual basis. The terms of the new agreement are consistent with the terms in place under the previous agreement.

Earnings revision

- No material change. Our FY10 NPAT forecast of \$37m (17.8cps) is based on a nickel price of US\$6.13/lb, if we use the spot price of US\$8.65/lb our forecast increases to \$85m (41cps).

Price catalyst

- 12-month price target: A\$1.75 based on a P/NPV and PER methodology.
- Catalyst: Savannah lower zone reserve and feasibility study.

Action and recommendation

- Neutral recommendation and A\$1.75ps price target retained. PAN has enjoyed a stellar share price run over the past two months, in unison with the nickel price which has exceeded our expectations. In the near term PAN provides investors with leverage to any potential spike in the nickel price that may occur should a stainless restocking cycle begin to take hold at a time when Vale's Canadian nickel operations are impacted by a striking workforce.

Panoramic Resources

Share price

\$2.50

Year End 30 June

Profit & Loss					Balance Sheet \$m						
		<u>2008a</u>	<u>2009a</u>	<u>2010e</u>	<u>2011e</u>			<u>2008a</u>	<u>2009a</u>	<u>2010e</u>	<u>2011e</u>
Sales Revenue	\$m	232	225	277	235	Cash	\$m	111	50	99	108
+ Other Revenue	\$m	0	1	0	0	Fixed Assets	\$m	136	200	178	156
Total Revenue	\$m	232	226	277	235	Total Assets	\$m	332	380	415	405
- Operating Costs	\$m	111	123	173	173	Borrowings	\$m	8	7	8	8
- Corporates/Other	\$m	12	12	10	10	Total Liabilities	\$m	100	94	92	85
EBITDA	\$m	109	92	93	52	Shareholders Equity	\$m	232	286	323	320
- Depreciation/Amortisation	\$m	40	49	44	44	NDebt/NDebt+Equity	%	-79%	-18%	-39%	-45%
- Write-Offs	\$m	2	40	2	3	Interest Cover (x)	\$m	(14.4)	(0.9)	(8.6)	(0.7)
EBIT	\$m	67	3	47	5	Return on Equity (%)	%	30%	2%	12%	2%
+ Net Interest	\$m	5	3	6	8						
Pretax Profit	\$m	71	5	53	13	Production & Key Assumptions					
- Tax Expense	\$m	18	-0	16	6	Sally Malay (100%)	kt	7.6	8.1	8.6	8.6
Net Profit	\$m	53	6	37	7	Lanfranchi (100%)	kt	5.5	8.3	10.6	9.8
+ Significant Items	\$m	0	0	0	0	Total attrib. nickel (in-conc)	kt	13.1	16.4	19.2	18.4
Reported Profit	\$m	53	6	37	7	Payable nickel production	kt	10.9	13.2	15.2	14.7
Adjusted Profit	\$m	53	6	37	7	Cash cost (per lb payable Ni)	US\$/lb	4.51	4.18	3.96	3.91
Shares on Issue	m	192	204	204	204	Ni Price Realised (per lb payable Ni)	US\$/lb	11.76	7.22	7.27	6.10
EPS (adj)	c	27.3	2.8	17.8	3.4	Spot Nickel Price	US\$/lb	12.93	6.02	6.14	6.06
DPS	c	13.0	3.0	6.0	1.0	Exchange Rate	A\$/US\$	89.7	75.7	79.3	78.5
Payout ratio	%	47.7%	108.2%	33.8%	29.1%						
						DCF valuation					
Cashflow		<u>2008a</u>	<u>2009a</u>	<u>2010e</u>	<u>2011e</u>		\$m	\$/share			
Operating Surplus	\$m	112	55	93	52	Sally Malay	44	0.21			
Net Interest	\$m	5	3	6	8	Lanfranchi	137	0.65			
Taxes Paid	\$m	-22	-25	-10	-13	Hedging	40	0.19			
Other / Dividends Received	\$m	0	0	0	0	Exploration	-	-			
Operating Cash Flows	\$m	96	34	89	47	Corporate Overheads	(13)	(0.06)			
Capital Expenditure	\$m	-59	-58	-22	-22	Cash plus net rec. plus options	67	0.32			
Exploration	\$m	-6	-3	-10	-5	Debt	(6)	(0.03)			
Acquisitions/Divestments	\$m	0	0	0	0	Net Equity Value	269	1.27			
Other	\$m	0	-18	0	0	Fully diluted number of shares	211m				
Investing Cash Flows	\$m	-65	-78	-32	-27						
Increase/(Decrease) Borrowing	\$m	-7	-5	0	0	Key investment ratios					
Dividends Paid	\$m	-36	-12	-8	-10	GCFPS	c	49.0	46.9	39.8	25.8
Other	\$m	4	0	0	0	PER (adj)	x	9.2	90.1	14.1	72.7
Financing Cash Flows	\$m	-39	-16	-8	-10	EV/EBITDA	x	3.5	9.0	4.6	8.3
Net Increase/(Decrease) Cash	\$m	-9	-61	49	10	PGCF	x	5.1	5.3	6.3	9.7

Source: Company data, Macquarie Research, September 2009

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