

# Panoramic Resources Limited

## September Quarterly – Focus On Exploration Upside



29 October 2009

**\$2.38**

**HOLD**

Keith Williams  
03 9640 3802  
keith.williams@wilsonhtm.com.au

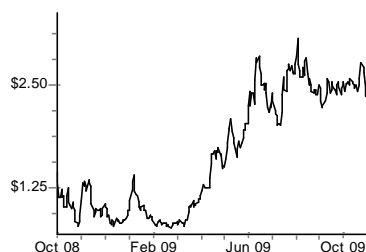
### Recommendation

PAN's operating performance was in keeping with our forecasts for the Dec HY. After including changes to the currency/commodity price hedge book, our FY2010 NPAT forecast is little changed at now \$77.8m. Valuation (\$2.29/share) and target price (\$2.26/share) are unchanged. The balance of FY2010 holds out the possibility of a significant exploration discovery and this is expected to add to the stock's appeal going forward. In particular, the Dec quarter will see drilling of the Bluebush project in the N.T. with its potential for the discovery of IOCG style mineralisation, similar to that at Prominent Hill. We have maintained our HOLD recommendation, but note that the stock is now trading at a minimal 4% premium to valuation and further pull back should be considered a buying opportunity to gain exposure to potential exploration upside.

### Key Points

- Savannah mine produced 1.98kt contained nickel, 1.019kt copper and 0.112kt cobalt. Cash cost was A\$4.34/lb payable nickel. Production levels were in keeping with our Dec HY forecasts. However, the cash cost performance was slightly better than we are forecasting for the half year (A\$4.64/lb payable nickel). The cash cost increased 18.6% relative to the June quarter performance of A\$3.66/lb, significantly due to a lower head grade and hence 11.8% lower production of nickel in concentrate.
- Lanfranchi mine produced 2.545kt contained nickel and 0.178kt copper. Cash cost was A\$5.33/lb payable nickel. Production levels were slightly lower than our Dec half forecasts when extrapolated. The cash cost performance was in line with our forecast for the half year (A\$5.37/lb payable nickel).
- Production guidance for FY2010 remains 18-19kt contained nickel. Our forecast is within this range at 18.5kt. We have left our production and cash cost forecasts unchanged, but note the possibility of a slightly better than forecast cost performance at Savannah in the Dec half.
- Additional hedging has been put in place both for nickel and the US\$/A\$. 320 tonnes of Ni puts @ US\$8.16/lb were purchased for Sep-Dec 2009 delivery. US\$30m of US\$/A\$ puts were purchased with a rate of 0.92 exercisable between Jan 2010 and Jun 2010. They were partially funded by selling US\$30m of calls with a rate of 0.73..
- For the first time, PAN has also purchased diesel fuel calls (9m litres @ US\$0.60/litre basis Singapore Gasoil 0.5s FOB) exercisable between Jan 2009 and Sep 2011. The calls were funded by granting 9m litres of diesel fuel puts at US\$0.43/litre. The volume hedged represents between 15-40% of monthly diesel consumption, principally consumed to generate power at the Savannah mine (~1m litres/month).
- Since Sep quarter end, an additional 1.8kt of nickel put options have been purchased at US\$7.26/lb, partly funded by selling 0.5kt of nickel call options at US\$10.89/lb.
- Excluding bought nickel puts, PAN has ~22% of nickel production hedged for the balance of FY2010-11. Hedging positions added since 30<sup>th</sup> June were partly funded by cash payments of ~US\$1.8m. Hedge book was \$29.8m in the money at 30<sup>th</sup> Sep.
- At least \$8m is committed to FY2010 exploration including \$1m committed offshore to the Norrland JV, Sweden. In the Dec quarter, a single 900m diamond drillhole will test the major target at the Bluebush project in the Northern Territory that is believed to have potential for IOCG (Prominent Hill) style mineralisation. A second 600m deep hole will test a target with potential for Tennant Creek style mineralisation.
- Balance sheet remains strong with net cash and cash investments of A\$77.2m, up \$16.5m since 30<sup>th</sup> June. Debt of \$4.8m consists of finance leases and sundry items.

### Price Performance



### Security/Capital Details

ASX Code	PAN
Market Cap	\$497 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	64.7%
EBIT / Sales	46.0%
Debt / Equity	1.9%
Interest Cover	217.5 x
ROE	24.9%
EPS Growth	224.3%
DCF	\$2.29
12 Mth Price Target	\$2.26

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	-58.8	20.7	16.0	14.8	3.0	1.3	100
2010e	77.8	77.8	37.3	224.3	6.4	57.8	4.1	19.0	8.0	100
2011e	61.2	61.2	29.3	-21.3	8.1	53.1	4.5	15.0	6.3	100
2012e	65.9	65.9	31.6	7.7	7.5	48.2	4.9	16.0	6.7	100



## Exploration Projects

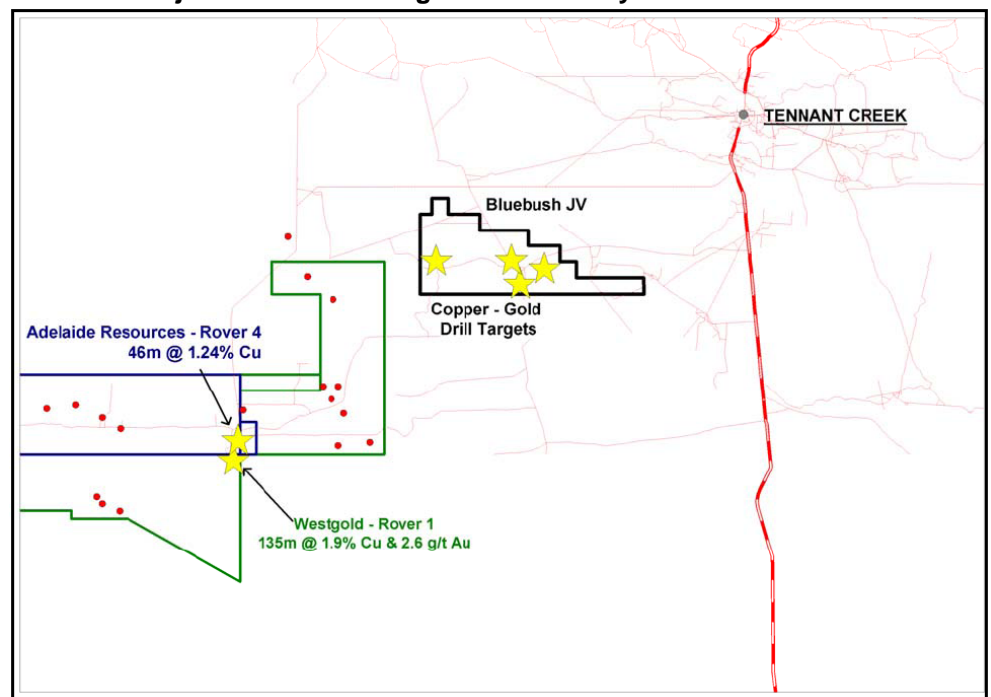
- During FY2010, at least \$8m has been allocated to exploration as follows:

Project	\$Millions
Bluebush JV	0.5
Savannah & Kimberley Regional	2.5
Cowan Nickel Project	1.0
Norrland JV - Sweden	1.0
Lanfranchi Mine	3.0
<b>TOTAL</b>	<b>8.0</b>

Source: Panoramic Resources Limited

## Bluebush JV Project (PAN earning up to 80%)

### Bluebush Project Location & Targets With Nearby Discoveries



Source: Panoramic Resources Limited

- The focus of this project is to drill a number of already defined geophysical and geological targets that have the potential for the discovery of IOCG (iron-oxide-copper-gold) style mineralisation, similar to that at Prominent Hill. The main anomaly in the West of the Bluebush joint venture area (see above diagram above) is a combined gravity and magnetic anomaly and will be tested in the Dec quarter by a single 900m diamond drillhole. A second 600m deep diamond drillhole will test one of the three other targets with potential for Tennant Creek style gold-copper mineralisation. The remaining two targets will be drilled in early 2010.

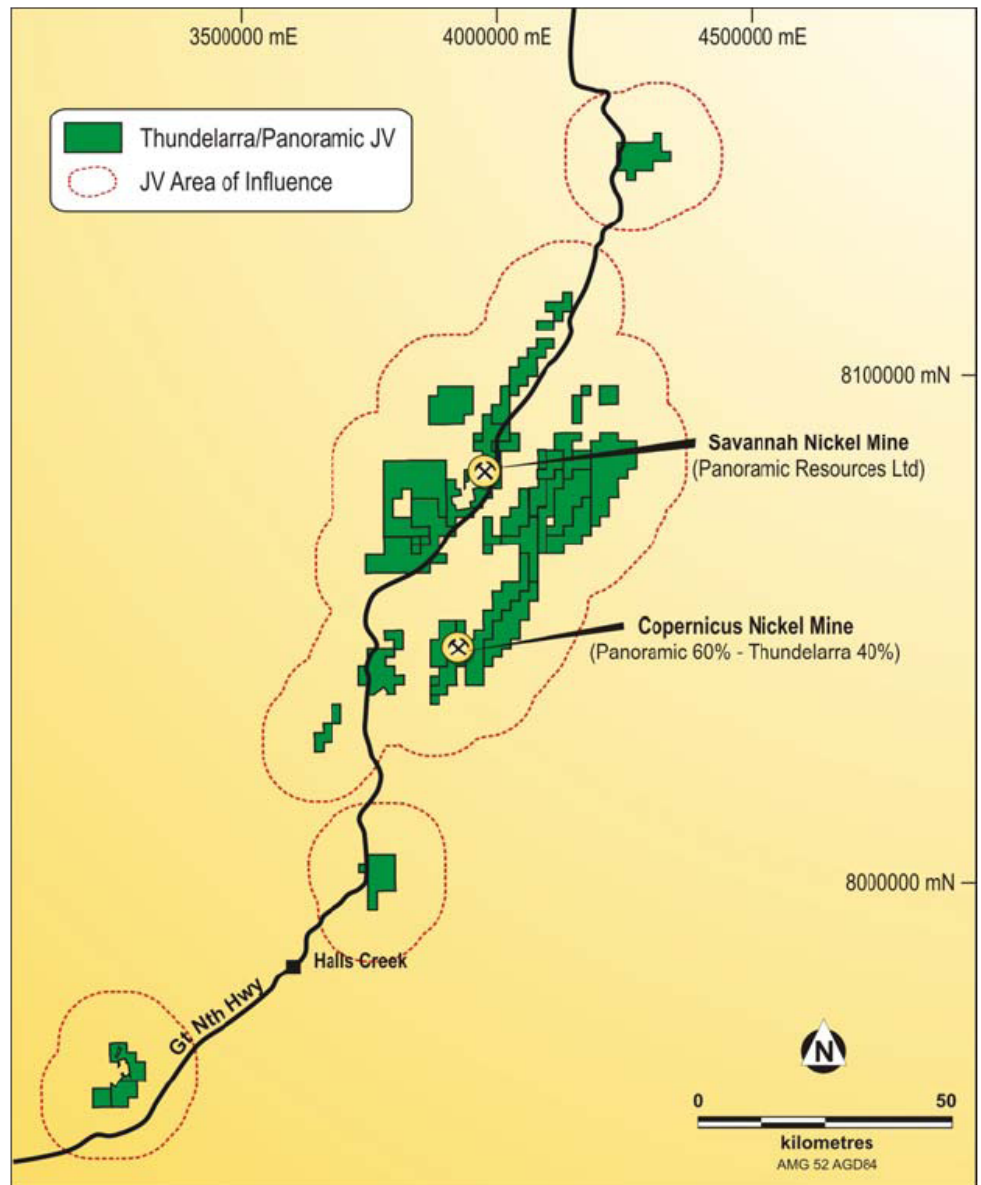
## East Kimberley Exploration JV (PAN earning 61% from THX)

- PAN entered into this jv with Thundelarra Exploration Ltd in June 2009. The FY2010 exploration budget is \$2.5m, although the amount also covers exploration at the Savannah mine and within the Savannah mine lease.
- Should exploration be successful, the existence of the Savannah mine mill and infrastructure offers significant potential leverage and valuation upside.



- Initial exploration will focus on the use of geophysics and existing geological data synthesis to identify potentially nickel bearing ultramafic rock suites.

### East Kimberley Joint Venture Area



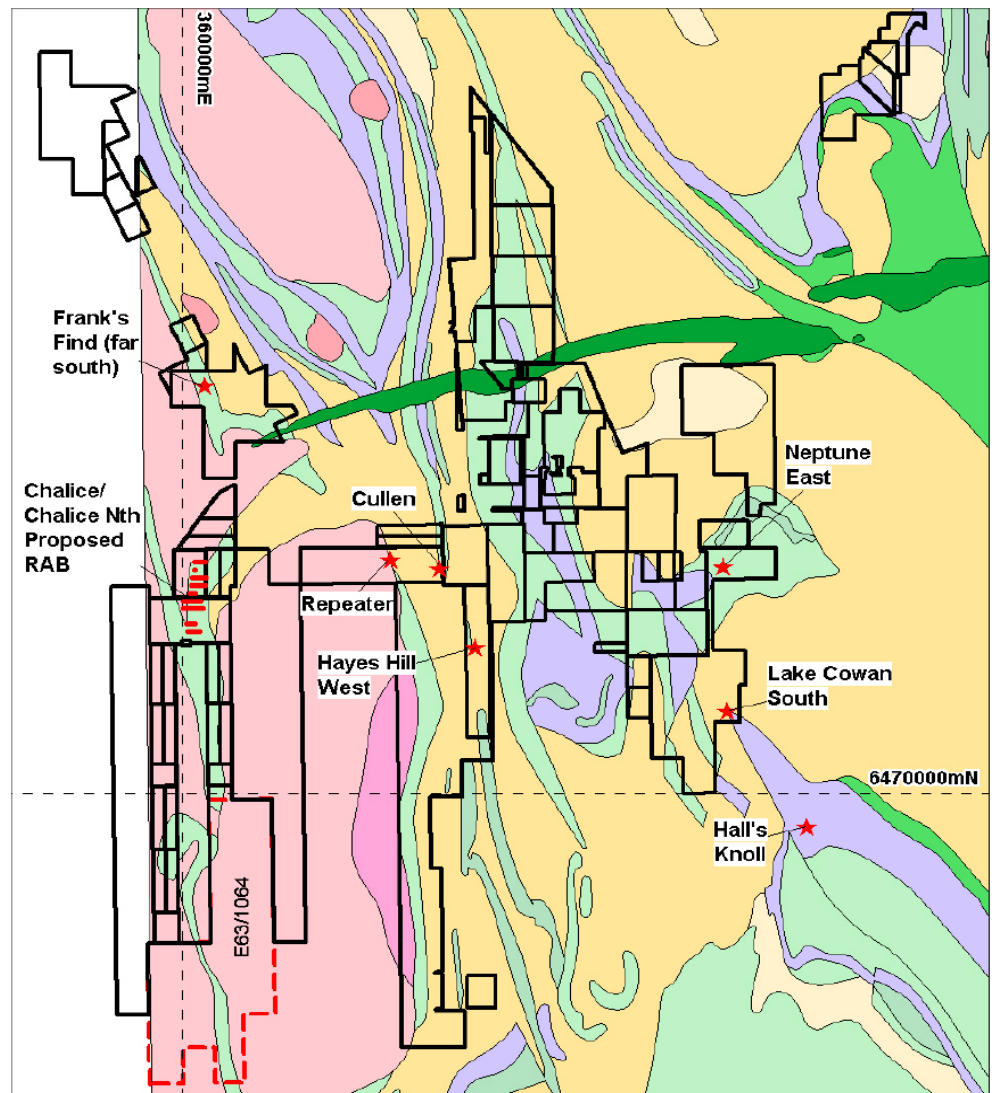
Source: Panoramic Resources Limited

### Cowan Nickel Project (PAN holds 100% of Nickel Rights)

- The program is expected to focus on the continuing geophysical prospecting for ultramafic rock units that could host nickel mineralisation, followed by geochemical sampling and geological mapping.
- Considerable fieldwork including RAB drilling was undertaken during the Sep quarter but with no significant results.
- Geophysical surveying will continue in the Dec quarter as well as RC drill testing of EM conductors at various prospects such as Frank's Find, Chalice Nth and Sth, Binaronca and Higginsville and a strong co-incident nickel-copper soil anomaly at Chalice SW.



### Cowan Nickel Project – Location Map



Source: Panoramic Resources Limited

### Norrand Nickel JV, Sweden (PAN earning up to 70%)

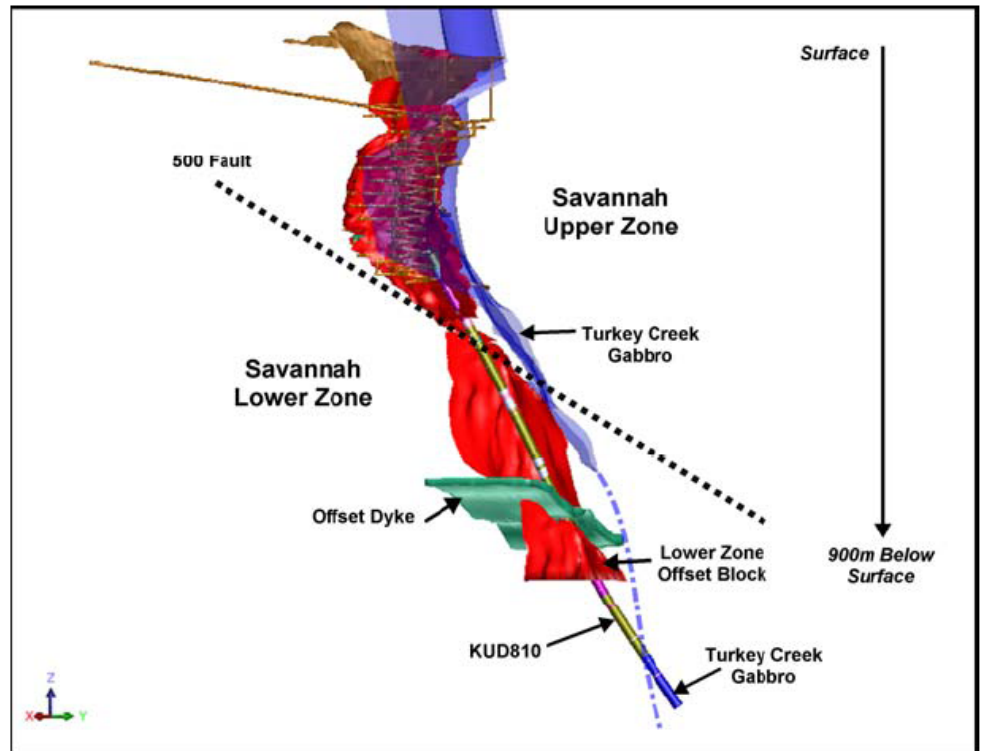
- This joint venture is exploring for nickel sulphide mineralisation in the Vasterbotten district of Sweden where exploration licences cover +1,000km<sup>2</sup> surrounding areas of known nickel sulphide mineralisation with advanced projects.
- The regional is considered to be geologically similar to the East Kimberley Halls Creek region and the Thompson nickel belt in Canada.
- During the Sep quarter, follow up work on 14 targets commenced using geophysics. Targets are expected to be identified for drilling once the geophysical work is completed.

### Savannah Mine And Lease Exploration (PAN 100%)

- FY2010 exploration will focus on:
  - Lower Zone Offset Block: further drill testing of the offset block below the Lower Zone Resource (soon to be reserve).
  - Savannah Intrusion: drilling to test previously untested targets along the Savannah intrusion contact.
  - Southern Anomalies: drill testing of regional geophysical anomalies south of the Savannah mine.

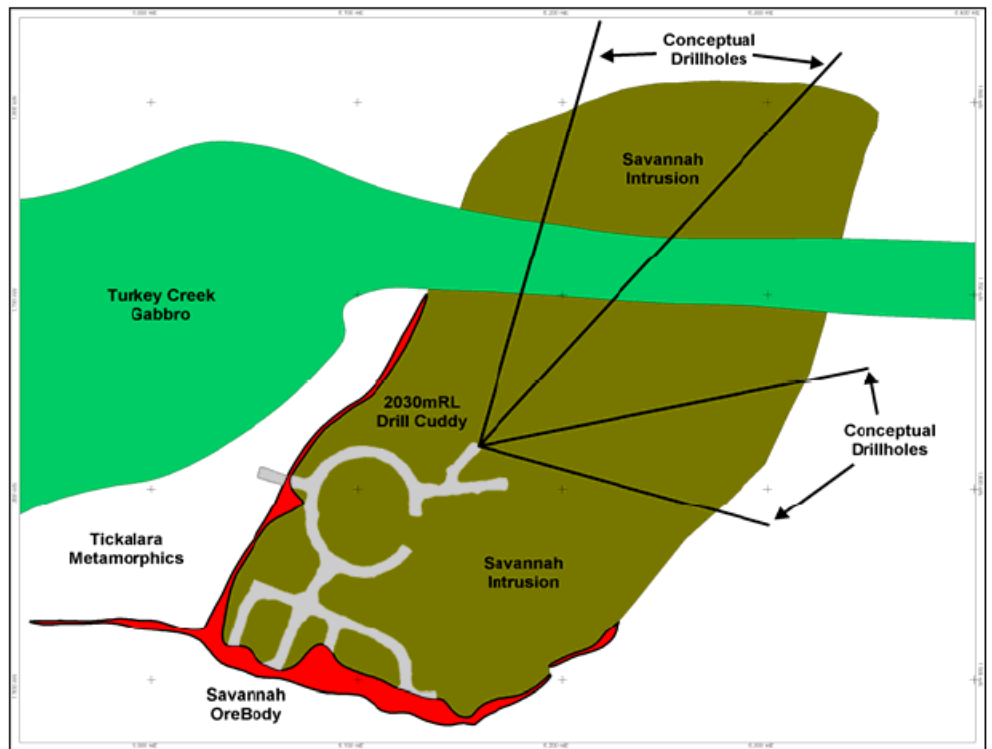


### Lower Zone Offset Block



Source: Panoramic Resources Limited

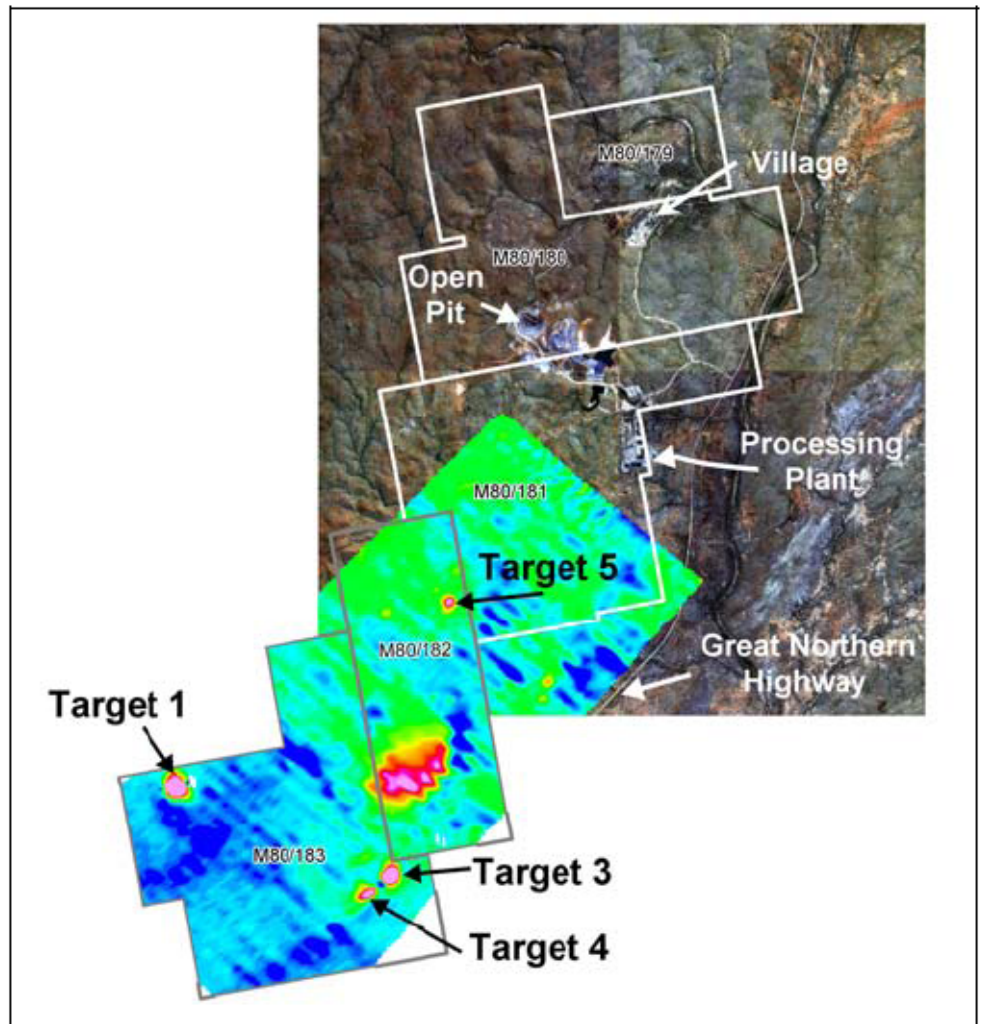
### Schematic Plan Of Savannah Intrusion Upper Zone



Source: Panoramic Resources Limited



## Geophysical (VTEM) Targets On The Savannah Mining Leases



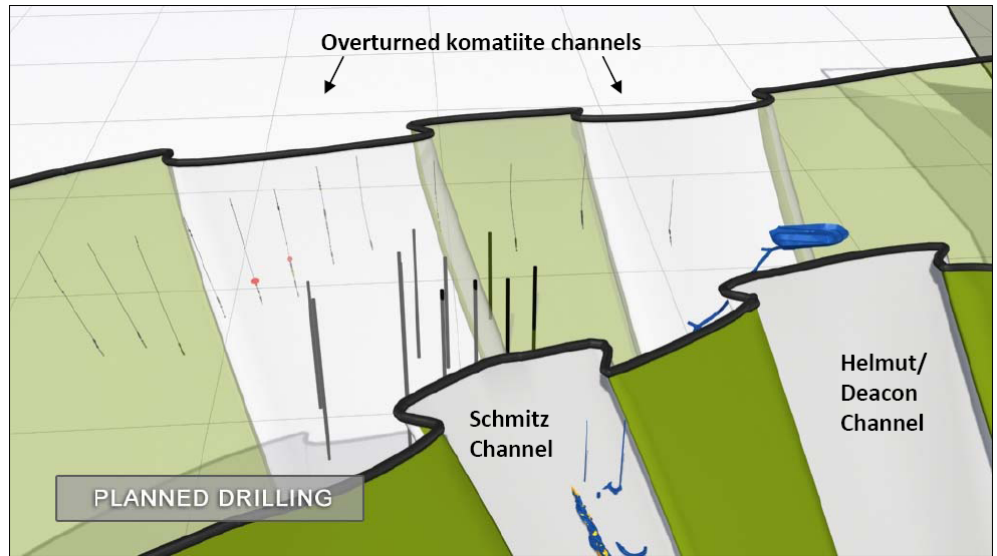
Source: Panoramic Resources Limited

### Lanfranchi Project Exploration

- During FY2010, surface and underground drilling will be focussed on two main areas:
  - Northern Tramways Dome: further testing of the northern overturned limb of the Helmut and Schmitz channels.
  - Channel Extensions: testing of extensions to existing orebodies and their host channel structures.



### Overtuned Nickel Bearing Channels At Lanfranchi



Source: Panoramic Resources Limited

## Panoramic Resources Limited (PAN : \$2.38)

## 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	0.85	0.82	0.80
Nickel (US\$/lb)	12.95	6.13	8.15	7.55	7.90
Copper (US\$/lb)	3.53	2.14	2.78	2.90	3.15
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	37.3	29.3	31.6
EPS Growth (%)	N/A	-58.8%	224.3%	-21.3%	7.7%
<b>PER (x)</b>	<b>8.5</b>	<b>20.7</b>	<b>6.4</b>	<b>8.1</b>	<b>7.5</b>
CFPS (c)	46.1	16.0	57.8	53.1	48.2
<b>P/CF (x)</b>	<b>5.2</b>	<b>14.8</b>	<b>4.1</b>	<b>4.5</b>	<b>4.9</b>
EV/EBITDA (x)	3.6	5.5	2.6	2.6	2.3
DPS (c)	12.0	3.0	19.0	15.0	16.0
<b>Yield (%)</b>	<b>5.0%</b>	<b>1.3%</b>	<b>8.0%</b>	<b>6.3%</b>	<b>6.7%</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	67.5	0.32	68.3	0.33
Lanfranchi	182.6	0.88	185.3	0.89
Corporate Costs Capitalised	-31.5	-0.15	-32.0	-0.15
Hedge Book	13.1	0.06	13.1	0.06
Interests - Other Entities	1.8	0.01	1.8	0.01
Exploration/Dev Portfolio	73.0	0.35	73.0	0.35
Franking Credits	60.8	0.29	61.7	0.30
Cash	110.8	0.53	110.8	0.53
Interest Bearing Liabilities	-6.6	-0.03	-6.6	-0.03
Minorities	0.0	0.00	0.0	0.00
Additional Capital - Dilution	6.8	0.03	6.8	0.03
Total Valuation - Diluted	478.2	2.29	482.2	2.31

## PROFITABILITY RATIOS

Yr Ending June	2008A	2009A	2010E	2011E	2012E
<b>EBIT / Sales (%)</b>	<b>30.2%</b>	<b>14.5%</b>	<b>46.0%</b>	<b>32.8%</b>	<b>36.3%</b>
ROA (%)	N/A	11.8%	33.1%	26.4%	29.8%
<b>ROE (%)</b>	<b>N/A</b>	<b>9.3%</b>	<b>24.9%</b>	<b>17.2%</b>	<b>16.9%</b>
ROFE (%)	N/A	17.6%	45.2%	36.4%	41.9%

## 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	118.9	114.8	116.1
EBIT	8.2	24.4	57.8	49.6	31.2
<b>Net Profit</b>	<b>-8.6</b>	<b>14.2</b>	<b>41.4</b>	<b>36.3</b>	<b>23.8</b>
EPS	4.4	7.1	19.8	17.4	11.4

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

## BALANCE SHEET (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
Cash	110.9	50.0	113.8	163.1	216.4
Total Assets	332.1	380.3	432.6	464.9	493.9
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	339.6	373.9	404.8
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%	1.9%	1.8%	1.6%
Gearing (%) <sup>1</sup>	3.5%	2.2%	1.9%	1.7%	1.6%
Interest Cover (x)	-15.2	33.5	-38.6	-16.0	-11.5
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	233.7	249.6	238.9
EBITDA	110.7	82.2	151.3	133.5	123.4
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>107.4</b>	<b>81.9</b>	<b>86.7</b>
Net Interest Expense	5.2	2.9	2.8	5.1	7.5
<b>Pre-tax Profit</b>	<b>74.9</b>	<b>31.7</b>	<b>110.2</b>	<b>87.0</b>	<b>94.2</b>
Tax	16.9	7.7	32.5	25.8	28.3
Tax rate (%)	22.5%	24.3%	29.5%	29.7%	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>77.8</b>	<b>61.2</b>	<b>65.9</b>
Abnormals	-4.7	-18.4	0.0	0.0	0.0
Reported Net Profit	53.3	5.6	77.8	61.2	65.9

## CASHFLOW (\$m)

Yr Ending June	2008A	2009A	2010E	2011E	2012E
<b>Operating Cash Flow</b>	<b>95.8</b>	<b>33.5</b>	<b>120.6</b>	<b>110.8</b>	<b>100.7</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	-24.5	-30.7	-35.0
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>-24.5</b>	<b>-26.9</b>	<b>-35.0</b>
<b>Cash Increase (Decrease)</b>	<b>-8.7</b>	<b>-61.0</b>	<b>63.8</b>	<b>49.3</b>	<b>53.3</b>

## EARNINGS SENSITIVITIES - % CHANGE

Yr Ending June	2008A	2009A	2010E	2011E	2012E
+/- 1c Movement US\$/A\$	0.0	0.0	1.2	4.6	4.4
+/-10% Ni Price Change	0.0	0.0	16.8	26.1	26.9
+/-10% Change In Costs	0.0	0.0	11.7	18.7	18.6

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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

GEE LONG  
Ph: 03 5225 1500  
Fax: 03 5225 1599

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